

AEP East Companies  
 Transmission Cost of Service Formula Rate  
 Utilizing Historic Cost Data for 2010 and Projected Net Plant at Year-End 2011

**KINGSPORT POWER COMPANY**

Line No.			Total	Allocator	Transmission Amount
1	REVENUE REQUIREMENT (w/o incentives)	(In 138)			\$2,670,047
2	REVENUE CREDITS	(Note A) (Worksheet E)	125,083	DA 1.00000	\$ 125,083
3	REVENUE REQUIREMENT For All Company Facilities	(In 1 less In 2)			<u>\$ 2,544,964</u>

**MEMO: The Carrying Charge Calculations on lines 6 to 11 below are used in calculating project revenue requirements billed through PJM Schedule 12, Transmission Enhancement Charges. The total non-incentive revenue requirements for these projects shown on line 4 is included in the total on line 3.**

4	Revenue Requirement for PJM Schedule 12 Facilities (w/o incentives) (Worksheet J)		-	DA 1.00000	\$ -
5	NET PLANT CARRYING CHARGE w/o intra-AEP charges or credits or ROE incentives (Note B)				
6	Annual Rate	$((\text{In } 1 - \text{In } 105 - \text{In } 106) / ((\text{In } 48 + \text{In } 49 + \text{In } 50 + \text{In } 51 + \text{In } 53) \times 100))$			25.04%
7	Monthly Rate	$(\text{In } 6 / 12)$			2.09%
8	NET PLANT CARRYING CHARGE ON LINE 6 , w/o depreciation or ROE incentives (Note B)				
9	Annual Rate	$((\text{In } 1 - \text{In } 105 - \text{In } 106 - \text{In } 111 - \text{In } 112) / ((\text{In } 48 + \text{In } 49 + \text{In } 50 + \text{In } 51 + \text{In } 53) \times 100))$			20.45%
10	NET PLANT CARRYING CHARGE ON LINE 9, w/o Return, income taxes or ROE incentives (Note B)				
11	Annual Rate	$((\text{In } 1 - \text{In } 105 - \text{In } 106 - \text{In } 111 - \text{In } 112 - \text{In } 133 - \text{In } 134) / ((\text{In } 48 + \text{In } 49 + \text{In } 50 + \text{In } 51 + \text{In } 53) \times 100))$			9.19%
12	ADDITIONAL REVENUE REQUIREMENT for projects w/ incentive ROE's (Note B) (Worksheet J)				-
13	<b>REVENUE REQUIREMENT FOR SCHEDULE 1A CHARGES</b>				
14	Total Load Dispatch & Scheduling (Account 561)	Line 85 Below			52,441
15	Less: Load Dispatch - Scheduling, System Control and Dispatch Services (321.88.b)				0
16	Less: Load Dispatch - Reliability, Planning & Standards Development Services (321.92.b)				0
17	Total 561 Internally Developed Costs	(Line 14 - Line 15 - Line 16)			<u>52,441</u>

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	(1)	(2)	(3)	(4)	(5)
Line No.	<b>RATE BASE CALCULATION</b>	<b>Data Sources (See "General Notes")</b>	<b>TO Total NOTE C</b>	<b>Allocator</b>	<b>Total Transmission</b>
18	GROSS PLANT IN SERVICE				
18	Production	(Worksheet A In 1.C)	0	NA	0
19	Less: Production ARO (Enter Negative)	(Worksheet A In 2.C)	0	NA	0
20	Transmission	(Worksheet A In 3.C & Ln 142)	19,006,058	DA	19,006,058
21	Less: Transmission ARO (Enter Negative)	(Worksheet A In 4.C& Ln 143)	0	TP	0
22	Plus: Transmission Plant-in-Service Additions (Worksheet I, In 21.D)		2,017,427	DA	2,017,427
23	Plus: Additional Trans Plant on Transferred Assets (Worksheet I, In 22.D)		0	DA	0
24	Distribution	(Worksheet A In 5.C)	104,884,065	NA	0
25	Less: Distribution ARO (Enter Negative)	(Worksheet A In 6.C)	0	NA	0
26	General Plant	(Worksheet A In 7.C)	2,388,946	W/S	199,652
27	Less: General Plant ARO (Enter Negative)	(Worksheet A In 8.C)	0	W/S	0
28	Intangible Plant	(Worksheet A In 9.C)	1,097,382	W/S	91,712
29	TOTAL GROSS PLANT	(sum Ins 18 to 28)	129,393,879		21,314,849
30	ACCUMULATED DEPRECIATION AND AMORTIZATION				
31	Production	(Worksheet A In 12.C)	0	NA	0
32	Less: Production ARO (Enter Negative)	(Worksheet A In 13.C)	0	NA	0
33	Transmission	(Worksheet A In 14.C & 28.C)	9,870,172	TP1=	9,870,172
34	Less: Transmission ARO (Enter Negative)	(Worksheet A In 15.C)	0	TP1=	0
35	Plus: Transmission Plant-in-Service Additions (Worksheet I, In 21.1)		12,291	DA	12,291
36	Plus: Additional Projected Deprec on Transferred Assets (Worksheet I In. 24.D)		2,291	DA	0
37	Plus: Additional Transmission Depreciation for 2011 (In 111)		476,751	TP1	476,751
38	Plus: Additional General & Intangible Depreciation for 2011 (In 113 + In 114)		185,175	W/S	15,476
39	Plus: Additional Accum Deprec on Transferred Assets (Worksheet I In 23.D)		0	DA	0
40	Distribution	(Worksheet A In 16.C)	39,337,935	NA	0
41	Less: Distribution ARO (Enter Negative)	(Worksheet A In 17.C)	0	NA	0
42	General Plant	(Worksheet A In 18.C)	634,319	W/S	53,012
43	Less: General Plant ARO (Enter Negative)	(Worksheet A In 19.C)	0	W/S	0
44	Intangible Plant	(Worksheet A In 20.C)	1,381,887	W/S	115,489
45	TOTAL ACCUMULATED DEPRECIATION	(sum Ins 31 to 44)	51,898,530		10,543,191
46	NET PLANT IN SERVICE				
47	Production	(In 18 + In 19 - In 31 - In 32)	0		0
48	Transmission	(In 20 + In 21 - In 33 - In 34)	9,135,886		9,135,886
49	Plus: Transmission Plant-in-Service Additions (In 22 - In 35)		2,005,136		2,005,136
50	Plus: Additional Trans Plant on Transferred Assets (In 23 - In 36)		0		0
51	Plus: Additional Transmission Depreciation for 2011 (-In 37)		(476,751)		(476,751)
52	Plus: Additional General & Intangible Depreciation for 2011 (-In 38)		(185,175)		(15,476)
53	Plus: Additional Accum Deprec on Transferred Assets (Worksheet I) (-In 39)		0		0
54	Distribution	(In 24 + In 25 - In 40 - In 41)	65,546,130		0
55	General Plant	(In 26 + In 27 - In 42 - In 43)	1,754,627		146,640
56	Intangible Plant	(In 28 - In 44)	(284,505)		(23,777)
57	TOTAL NET PLANT IN SERVICE	(sum Ins 47 to 56)	77,495,349		10,771,659
58	DEFERRED TAX ADJUSTMENTS TO RATE BASE	(Note D)			
59	Account No. 281.1 (enter negative)	(Worksheet B, In 2 & In 5.C)	0	NA	0
60	Account No. 282.1 (enter negative)	(Worksheet B, In 7 & In 10.C)	(12,463,403)	DA	(2,024,783)
61	Account No. 283.1 (enter negative)	(Worksheet B, In 12 & In 15.C)	(486,620)	DA	(155,730)
62	Account No. 190.1	(Worksheet B, In 17 & In 20.C)	622,764	DA	37,723
63	Account No. 255 (enter negative)	(Worksheet B, In 24 & In 25.C)	(160,107)	DA	(34,044)
64	TOTAL ADJUSTMENTS	(sum Ins 59 to 63)	(12,487,365)		(2,176,834)
65	PLANT HELD FOR FUTURE USE	(Worksheet A In 29.C & In 30.C)	246,973	DA	0
66	REGULATORY ASSETS	(Worksheet A In 36. (C))	0	DA	0
67	WORKING CAPITAL	(Note E)			
68	Cash Working Capital	(1/8 * In 88)	60,339		60,339
69	Transmission Materials & Supplies	(Worksheet C, In 2.(D))	256	TP	256
70	A&G Materials & Supplies	(Worksheet C, In 3.(D))	347	W/S	29
71	Stores Expense	(Worksheet C, In 4.(D))	0	GP(h)	0
72	Prepayments (Account 165) - Labor Allocated	(Worksheet C, In 6.G)	4,207,740	W/S	351,654
73	Prepayments (Account 165) - Gross Plant	(Worksheet C, In 6.F)	2,184,358	GP(h)	330,928
74	Prepayments (Account 165) - Transmission Only	(Worksheet C, In 6.E)	0	DA	0
75	Prepayments (Account 165) - Unallocable	(Worksheet C, In 6.D)	(4,150,058)	NA	0
76	TOTAL WORKING CAPITAL	(sum Ins 68 to 75)	2,302,982		743,207
77	IPP CONTRIBUTIONS FOR CONSTRUCTION	(Note F) (Worksheet D, In 7.B)	-	DA	-
78	RATE BASE (sum Ins 57, 64, 65, 66, 76, 77)		67,557,939		9,338,032

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Line No.	(1) EXPENSE, TAXES, RETURN & REVENUE REQUIREMENTS CALCULATION	(2) Data Sources (See "General Notes")	(3) TO Total	(4) Allocator	(5) Total Transmission
79	OPERATION & MAINTENANCE EXPENSE				
79	Production	321.80.b	123,834,031		
80	Distribution	322.156.b	2,326,363		
81	Customer Related Expense	322.164,171,178.b	2,331,463		
82	Regional Marketing Expenses	322.131.b	-		
83	Transmission	321.112.b	535,156		
84	TOTAL O&M EXPENSES	(sum lns 79 to 83)	129,027,013		
85	Less: Total Account 561	(Note G) (Worksheet F, In 14.C)	52,441		
86	Less: Account 565	(Note H) 321.96.b	-		
87	Less: State Regulatory Deferrals & Amortizations	(Note I) (Worksheet F, In 4.C)	-		
88	Total O&M Allocable to Transmission	(lns 83 - 85 - 86 - 87)	482,715	TP 1.00000	482,715
89	Administrative and General	323.197.b (Note J)	2,558,648		
90	Less: Acct. 924, Property Insurance	323.185.b	110,260		
91	Acct. 9260039 PBOP Expense	PBOP Worksheet O Line 9 & 10, (Note K)	482,788		
92	Acct. 9260057 PBOP Medicare Subsidy	PBOP Worksheet O Line 11, (Note K)	(128,004)		
93	PBOP Expense Billed From AEPSC	PBOP Worksheet O Line 13, (Note K)	31,514		
94	Acct. 928, Reg. Com. Exp.	323.189.b	93		
95	Acct. 930.1, Gen. Advert. Exp.	323.191.b	18,591		
96	Acct. 930.2, Misc. Gen. Exp.	323.192.b	20,483		
97	Balance of A & G	(ln 89 - sum ln 90 to ln 96)	2,022,923	W/S 0.08357	169,062
98	Plus: Acct. 924, Property Insurance	(ln 90)	110,260	GP(h) 0.15150	16,704
99	Acct. 928 - Transmission Specific	Worksheet F In 20.(E) (Note L)	-	TP 1.00000	-
100	Acct 930.1 - Only safety related ads -Direct	Worksheet F In 37.(E) (Note L)	-	TP 1.00000	-
101	Acct 930.2 - Misc Gen. Exp. - Trans	Worksheet F In 43.(E) (Note L)	20,265	DA 1.00000	20,265
102	Settlement Approved PBOP Recovery	PBOP Worksheet O, Col. C, Line 5, (Note M)	369,629	W/S 0.08357	30,891
103	A & G Subtotal	(sum lns 97 to 102)	2,523,077		236,922
104	O & M EXPENSE SUBTOTAL	(ln 88 + ln 103)	3,005,791		719,637
105	Plus: TEA Settlement in Account 565	Company Records (Note H)	-	DA 1.00000	-
106	Plus: Transmission Lease Payments To Affiliates in Acct 565 (Company Records) (Note H)		-	DA 1.00000	-
107	TOTAL O & M EXPENSE	(ln 104 + ln 105 + ln 106)	3,005,791		719,637
108	DEPRECIATION AND AMORTIZATION EXPENSE				
109	Production	336.2-6.f	-	NA 0.00000	-
110	Distribution	336.8.f	3,586,795	NA 0.00000	-
111	Transmission	336.7.f	476,751	TP1 1.00000	476,751
112	Plus: Transmission Plant-in-Service Additions (Worksheet I In 21.I)		12,291	DA 1.00000	12,291
113	General	336.10.f	85,781	W/S 0.08357	7,169
114	Intangible	336.1.f	99,394	W/S 0.08357	8,307
115	TOTAL DEPRECIATION AND AMORTIZATION	(lns 109+110+111 +112+113+114)	4,261,012		504,518
116	TAXES OTHER THAN INCOME	(Note N)			
117	Labor Related				
118	Payroll	Worksheet H In 21.(D)	202,931	W/S 0.08357	16,960
119	Plant Related				
120	Property	Worksheet H In 21.(C) & In 35.(C)	1,035,665	DA	126,693
121	Gross Receipts/Sales & Use	Worksheet H In 21.(F)	3,619,528	NA 0.00000	-
122	Other	Worksheet H In 21.(E)	670,950	GP(h) 0.15150	101,648
123	TOTAL OTHER TAXES	(sum lns 118 to 122)	5,529,074		245,301
124	INCOME TAXES	(Note O)			
125	$T=1 - \{[(1 - SIT) * (1 - FIT)] / (1 - SIT * FIT * p)\}$		39.23%		
126	$EIT=(T/(1-T)) * (1-(WCLTD/WACC)) =$		50.21%		
127	where WCLTD=(ln 162) and WACC = (ln 165)				
128	and FIT, SIT & p are as given in Note O.				
129	$GRCF=1 / (1 - T) =$ (from ln 125)		1.6454		
130	Amortized Investment Tax Credit (enter negative)	(FF1 p.114, ln 19.c)	-		
131	Income Tax Calculation	(ln 126 * ln 134)	2,903,424		401,319
132	ITC adjustment	(ln 129 * ln 130)	-	NP(h) 0.12158	-
133	TOTAL INCOME TAXES	(sum lns 131 to 132)	2,903,424		401,319
134	RETURN ON RATE BASE (Rate Base * WACC)	(ln 78 * ln 165)	5,782,504		799,273
135	INTEREST ON IPP CONTRIBUTION FOR CONST. (Note F) (Worksheet D, In 2.(B))		-	DA 1.00000	-
136	(Gains) / Losses on Sales of Plant Held for Future Use (Worksheet N, In 4, Cols. ((F) & (H))		-		-
137	Tax Impact on (Gains) / Losses on Sales of Plant Held for Future Use (ln 136 * ln126)		-		-
138	TOTAL REVENUE REQUIREMENT		21,481,805		2,670,047
	(sum lns 107, 115, 123, 133, 134, 135, 136, 137)				

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SUPPORTING CALCULATIONS

In									
No.	TRANSMISSION PLANT INCLUDED IN PJM TARIFF								
139	Total transmission plant	(In 20)						19,006,058	
140	Less transmission plant excluded from PJM Tariff (Note P)							-	
141	Less transmission plant included in OATT Ancillary Services (Worksheet A, In 23, Col. (C)) (Note Q)							-	
142	Transmission plant included in PJM Tariff	(In 139 - In 140 - In 141)						19,006,058	
143	Percent of transmission plant in PJM Tariff	(In 142 / In 139)					<b>TP</b>	<b>1.00000</b>	
144	WAGES & SALARY ALLOCATOR (W/S)	(Note R)	Direct Payroll	Payroll Billed from AEP Service Corp.	Total				
145	Production	354.20.b	722	-722	-	NA	0.00000	-	
146	Transmission	354.21.b	160,120	123,192	283,312	TP	1.00000	283,312	
147	Regional Market Expenses	354.22.b	0	0	-	NA	0.00000	-	
148	Distribution	354.23.b	2,001,153	335,857	2,337,010	NA	0.00000	-	
149	Other (Excludes A&G)	354.24,25,26.b	260,233	509,430	769,663	NA	0.00000	-	
150	Total	(sum Ins 145 to 149)	2,422,228	967,757	3,389,985			283,312	
151	Transmission related amount						<b>W/S=</b>	<b>0.08357</b>	
152	WEIGHTED AVERAGE COST OF CAPITAL (WACC)							\$	
153	Long Term Interest	(Worksheet L, In. 35, col. (D))						904,000	
154	Preferred Dividends	(Worksheet L, In. 40, col. (D))						-	
155	<u>Development of Common Stock:</u>								
156	Proprietary Capital	(FF1 p 112, Ln 16.c)						27,572,018	
157	Less: Preferred Stock	(FF1 p 112, Ln 3.c)						-	
158	Less: Account 216.1	(FF1 p 112, Ln 12.c)						-	
159	Less: Account 219	(FF1 p 112, Ln 15.c)						6,182	
160	Common Stock	(In 156 - In 157 - In 158 - In 159)						27,565,836	
161			\$	%		Cost			
162	Long Term Debt (Note T) Worksheet L, In 35, col. (B))		20,000,000	42.05%		(Note S)	0.0452	0.0190	
163	Preferred Stock (In 157)		-	0.00%			-	0.0000	
164	Common Stock (In 160)		27,565,836	57.95%			11.49%	0.0666	
165	Total (Sum Ins 162 to 164)		47,565,836				<b>WACC=</b>	<b>0.0856</b>	

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**Letter**

**Notes**

General Notes: a) References to data from Worksheets are indicated as: Worksheet X, Line#.Column.X

- A Revenue credits include:  
 1) Forfeited Discounts.  
 2) Miscellaneous Service Revenues.  
 3) Rental revenues earned on assets included in the rate base.  
 4) Revenues for associated business projects provided by employees whose labor and overhead costs are in the transmission cost of service.  
 5) Other electric revenues.  
 6) Revenues for grandfathered PTP contracts included in the load divisor.  
 See Worksheet E for details.
- B The annual and monthly net plant carrying charges on page 1 are used to compute the revenue requirement for RTEP sponsored upgrades or those projects receiving approved incentive-ROE's.
- C Transmission Plant balances in this study are projected as of December 31, 2011. Other ratebase amounts are as of December 31, 2010.
- D The total-company balances shown for Accounts 281, 282, 283, 190 only reflect ADIT that relates to utility operations. The balance of Account 255 is reduced by prior flow throughs and is completely excluded if the utility chose to utilize amortization of tax credits against FIT expense. An exception to this is pre-1971 ITC balances, which are required to be taken as an offset to rate base. Account 281 is not allocated. In compliance with FERC Rulemaking RM02-7-000, Asset Retirement Obligation deferrals have been removed from ratebase. Transmission ADIT allocations are shown on WS B. The company will not include the ADIT portion of deferred hedge gains and losses in rate base.
- E Cash Working Capital assigned to transmission is one-eighth of O&M allocated to transmission, as shown on line 88. It excludes:  
 1) Load Scheduling & Dispatch Charges in account 561 that are collected in the OATT Ancillary Services Revenue, as shown on line 85.  
 2) AEP transmission equalization transfers, as shown on line 86  
 3) The impact of state regulatory deferrals and amortizations, as shown on line 87  
 4) All A&G Expenses, as shown on line 103.
- F Consistent with Paragraph 657 of Order 2003-A, the amount on line 77 is equal to the balance of IPP System Upgrade Credits owed to transmission customers that made contributions toward the construction of System upgrades, and includes accrued interest and unreturned balance of contributions. The annual interest expense is included on line 135.
- G Removes from the cost of service the Load Scheduling and Dispatch expenses booked to accounts 561.1 through 561.8. Expenses recorded in these accounts, with the exception of 561.4 & 561.8 (lines 15 & 16 above) are recovered in Schedule 1A, OATT ancillary services rates. See Worksheet F, lines 5 through 14, for descriptions and the Form 1 Source of these accounts' balances.
- H Removes cost of transmission service provided by others to determine the basis of cash working capital on line 88. To the extent such service is incurred to provide the PJM service at issue, e.g. transmission equalization agreement, such costs are added back on lines 105 and 106 to determine the total O&M collected in the formula. The amounts on lines 105 and 106 are also excluded in the calculation of the FCR percentage calculated on lines 5 through 11  
 The addbacks on lines 105 and 106 of activity recorded in 565 represents inter-company sales or purchases of transmission capacity necessary to meet each AEP company's transmission load relative to their available transmission capacity.  
 The company records referenced on lines 105 and 106 is the KINGSPORT POWER COMPANY general ledger.
- I Removes the impact of state regulatory deferrals or their amortization from O&M expense.
- J General Plant and Administrative & General expenses, other than in accounts 924, 928, and 930, will be functionalized based on the Wages & Salaries "W/S" allocator. The allocation basis for accounts 924, 928 and 930 are separately presented in the formula. A change in the allocation method for an account must be approved via a 205 filing with the FERC.
- K These deductions on lines 91 through 93 are to remove from the cost of service the expenses recorded by the company for Postemployment Benefits Other than Pensions (PBOP). See Note M below for the recoverable PBOP expense.
- L Expenses reported for these A&G accounts will be included in the cost of service only to the extent they are directly assignable to transmission service. Worksheet F allocates these expense items. Acct 928 Includes Regulatory Commission expenses itemized in FERC Form-1 at page 351, column H. FERC Assessment Fees and Annual Charges shall not be allocated to transmission. Only safety-related and educational advertising costs in Account 930.1 are included in the TCOS. Account 930.2 includes the expenses incurred by the transmission function for Associated Business Development revenues given as a credit to the TCOS on Worksheet E.
- M See note K above. Per the settlement in Docket ER08-1329, recoverable PBOP expense is based on an annual total for the seven operating companies that is ratioed to them based on the total of actual annual PBOP costs, including charges from the AEP Service Corporation. The calculation of the recoverable amount for each company is shown on Worksheet O, and the process for updating the annual total is documented on Attachment F, Allowable PBOP Expense Formula.
- N Includes only FICA, unemployment, highway, property and other assessments charged in the current year. Gross receipts, sales & use and taxes related to income are excluded.
- O The currently effective income tax rate, where FIT is the Federal income tax rate; SIT is the State income tax rate, and p = the percentage of federal income tax deductible for state income taxes. See Worksheet G for the development of the Company's composite SIT.  
 A utility that elected to utilize amortization of tax credits against taxable income, rather than book tax credits to Account No. 255 and reduce rate base, must reduce its income tax expense by the amount of the Amortized Investment Tax Credit (Form 1, 266.8.f)  
 (In 130) multiplied by (1/1-T) . If the applicable tax rates are zero enter 0.
- |                  |       |   |
|------------------|-------|---|
| Inputs Required: | FIT = | 35.00%  |
|                  | SIT=  | 6.50% (State Income Tax Rate or Composite SIT. Worksheet G))        |
|                  | p =   | 0.00% (percent of federal income tax deductible for state purposes) |
- P Removes plant excluded from the OATT because it does not meet the PJM's definition of Transmission Facilities or is otherwise ineligible to be recovered under the OATT.
- Q Removes transmission plant (e.g. step-up transformers) included in the development of OATT ancillary service rates and not already removed for reasons indicated in Note P.
- R Includes functional wages & salaries billed by AEP Service Corporation for support of the operating company.
- S Long Term Debt cost rate = long-term interest (In 153) / long term debt (In 162). Preferred Stock cost rate = preferred dividends (In 154) / preferred outstanding (In 163). Common Stock cost rate (ROE) = 11.49%, the rate accepted by FERC in Docket No. ER08-1329. It includes an additional 50 basis points for PJM RTO membership. In the Projected & Historic templates, the interest expense on long-term debt is the sum of a full year's interest expense at the coupon rate for each issuance outstanding as of December 31 of the historic year. The projected expense for variable rate debt will be based on the effective rate at December 31. These conventions ensure that the expense used in the projection will reflect a full year, similar to the actual expense that will appear in the subsequent true-up of the projection, and minimize the impact on the true-up of using a partial year interest expense. The projection will reflect the actual historic-year expense recorded for issuance expenses, discounts and premiums, and gains or losses on reacquired debt. Eligible hedging gains or losses will be limited to five basis points of the projected capital structure. Details and calculations are shown on Worksheet L.
- T This note only applies to Indiana Michigan Power Company.
- U This note only applies to the true-up template.

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Line No.			Total	Allocator	Transmission Amount
166	REVENUE REQUIREMENT (w/o incentives)	(In 303)			\$2,463,241
167	REVENUE CREDITS	(Note A) (Worksheet E)	125,083	DA 1.00000	\$ 125,083
168	REVENUE REQUIREMENT For All Company Facilities	(In 166 less In 167)			<u>\$ 2,338,158</u>

**MEMO: The Carrying Charge Calculations on lines 171 to 176 below are used in calculating project revenue requirements billed through PJM Schedule 12, Transmission Enhancement Charges. The total non-incentive revenue requirements for these projects shown on line 169 is included in the total on line 168.**

169	Not applicable on this template				
170	NET PLANT CARRYING CHARGE w/o intra-AEP charges or credits or ROE incentives (Note B)				
171	Annual Rate	(In 166 - In 270 - In 271) / In 213 x 100)			26.96%
172	Monthly Rate	(In 171 / 12)			2.25%
173	NET PLANT CARRYING CHARGE ON LINE 171, w/o depreciation or ROE incentives (Note B)				
174	Annual Rate	(In 166 - In 270 - In 271 - In 276) / In 213 x 100)			21.74%
175	NET PLANT CARRYING CHARGE ON LINE 174, w/o Return, income taxes or ROE incentives (Note B)				
176	Annual Rate	(In 166 - In 270 - In 271 - In 276 - In 298 - In 299) / In 213 x 100)			10.73%
177	Not applicable on this template				
178	<b>REVENUE REQUIREMENT FOR SCHEDULE 1A CHARGES</b>				
179	Total Load Dispatch & Scheduling (Account 561)	Line 250 Below			52,441
180	Less: Load Dispatch - Scheduling, System Control and Dispatch Services (321.88.b)				-
181	Less: Load Dispatch - Reliability, Planning & Standards Development Services (321.92.b)				-
182	Total 561 Internally Developed Costs	(Line 179 - Line 180 - Line 181)			<u>52,441</u>

AEP East Companies  
Transmission Cost of Service Formula Rate  
Utilizing Historic Cost Data for 2010 with Year-End Rate Base Balances

KINGSPORT POWER COMPANY

Line No.	(1) <u>RATE BASE CALCULATION</u>	(2) <u>Data Sources</u> <u>(See "General Notes")</u>	(3) <u>TO Total</u> <u>NOTE C</u>	(4) <u>Allocator</u>	(5) <u>Total</u> <u>Transmission</u>
183	GROSS PLANT IN SERVICE				
183	Production	(Worksheet A In 1.C)	-	NA	0.00000
184	Less: Production ARO (Enter Negative)	(Worksheet A In 2.C)	-	NA	0.00000
185	Transmission	(Worksheet A In 3.C & Ln 307)	19,006,058	DA	19,006,058
186	Less: Transmission ARO (Enter Negative)	(Worksheet A In 4.C & Ln 308)	-	TP	-
187	Plus: Transmission Plant-in-Service Additions (Worksheet I)		N/A	NA	0.00000
188	Plus: Additional Trans Plant on Transferred Assets (Worksheet I)		N/A	NA	0.00000
189	Distribution	(Worksheet A In 5.C)	104,884,065	NA	0.00000
190	Less: Distribution ARO (Enter Negative)	(Worksheet A In 6.C)	-	NA	0.00000
191	General Plant	(Worksheet A In 7.C)	2,388,946	W/S	0.08357
192	Less: General Plant ARO (Enter Negative)	(Worksheet A In 8.C)	-	W/S	0.08357
193	Intangible Plant	(Worksheet A In 9.C)	1,097,382	W/S	0.08357
194	TOTAL GROSS PLANT	(sum Ins 183 to 193)	127,376,451	GP(h)=	0.151499
				GTD=	0.15341
195	ACCUMULATED DEPRECIATION AND AMORTIZATION				
196	Production	(Worksheet A In 12.C)	-	NA	0.00000
197	Less: Production ARO (Enter Negative)	(Worksheet A In 13.C)	-	NA	0.00000
198	Transmission	(Worksheet A In 14.C & 28.C)	9,870,172	TP1=	1.00000
199	Less: Transmission ARO (Enter Negative)	(Worksheet A In 15.C)	-	TP1=	1.00000
200	Plus: Transmission Plant-in-Service Additions (Worksheet I)		N/A	DA	1.00000
201	Plus: Additional Projected Deprec on Transferred Assets (Worksheet I)		N/A	DA	1.00000
202	Plus: Additional Transmission Depreciation for 2011 (In 276)		N/A	TP1	1.00000
203	Plus: Additional General & Intangible Depreciation for 2011 (In 275 + In 276)		N/A	W/S	0.08357
204	Plus: Additional Accum Deprec on Transferred Assets (Worksheet I)		N/A	DA	1.00000
205	Distribution	(Worksheet A In 16.C)	39,337,935	NA	0.00000
206	Less: Distribution ARO (Enter Negative)	(Worksheet A In 17.C)	-	NA	0.00000
207	General Plant	(Worksheet A In 18.C)	634,319	W/S	0.08357
208	Less: General Plant ARO (Enter Negative)	(Worksheet A In 19.C)	-	W/S	0.08357
209	Intangible Plant	(Worksheet A In 20.C)	1,381,887	W/S	0.08357
210	TOTAL ACCUMULATED DEPRECIATION	(sum Ins 196 to 209)	51,224,313		10,038,673
211	NET PLANT IN SERVICE				
212	Production	(In 183 + In 184 - In 196 - In 197)	-		-
213	Transmission	(In 185 + In 186 - In 198 - In 199)	9,135,886		9,135,886
214	Plus: Transmission Plant-in-Service Additions (In 187 - In 200)		N/A		N/A
215	Plus: Additional Trans Plant on Transferred Assets (In 188 - In 201)		N/A		N/A
216	Plus: Additional Transmission Depreciation for 2011 (-In 202)		N/A		N/A
217	Plus: Additional General & Intangible Depreciation for 2011 (-In 203)		N/A		N/A
218	Plus: Additional Accum Deprec on Transferred Assets (Worksheet I) (-In 204)		N/A		N/A
219	Distribution	(In 189 + In 190 - In 205 - In 206)	65,546,130		-
220	General Plant	(In 191 + In 192 - In 207 - In 208)	1,754,627		146,640
221	Intangible Plant	(In 193 - In 209)	(284,505)		(23,777)
222	TOTAL NET PLANT IN SERVICE	(sum Ins 212 to 221)	76,152,138	NP(h)=	0.121582
223	DEFERRED TAX ADJUSTMENTS TO RATE BASE	(Note D)			
224	Account No. 281.1 (enter negative)	(Worksheet B, In 2 & In 5.C)	-	NA	-
225	Account No. 282.1 (enter negative)	(Worksheet B, In 7 & In 10.C)	(12,463,403)	DA	(2,024,783)
226	Account No. 283.1 (enter negative)	(Worksheet B, In 12 & In 15.C)	(486,620)	DA	(155,730)
227	Account No. 190.1	(Worksheet B, In 17 & In 20.C)	622,764	DA	37,723
228	Account No. 255 (enter negative)	(Worksheet B, In 24 & In 25.C)	(160,107)	DA	(34,044)
229	TOTAL ADJUSTMENTS	(sum Ins 224 to 228)	(12,487,365)		(2,176,834)
230	PLANT HELD FOR FUTURE USE	(Worksheet A In 29.C & In 30.C)	246,973	DA	-
231	REGULATORY ASSETS	(Worksheet A In 36. (C))	-	DA	-
232	WORKING CAPITAL	(Note E)			
233	Cash Working Capital	(1/8 * In 253)	60,339		60,339
234	Transmission Materials & Supplies	(Worksheet C, In 2.(D))	256	TP	1.00000
235	A&G Materials & Supplies	(Worksheet C, In 3.(D))	347	W/S	0.08357
236	Stores Expense	(Worksheet C, In 4.(D))	-	GP(h)	0.15150
237	Prepayments (Account 165) - Labor Allocated	(Worksheet C, In 6.G)	4,207,740	W/S	0.08357
238	Prepayments (Account 165) - Gross Plant	(Worksheet C, In 6.F)	2,184,358	GP(h)	0.15150
239	Prepayments (Account 165) - Transmission Only	(Worksheet C, In 6.E)	-	DA	1.00000
240	Prepayments (Account 165) - Unallocable	(Worksheet C, In 6.D)	(4,150,058)	NA	0.00000
241	TOTAL WORKING CAPITAL	(sum Ins 233 to 240)	2,302,982		743,207
242	IPP CONTRIBUTIONS FOR CONSTRUCTION	(Note F) (Worksheet D, In 7.B)	-	DA	1.00000
243	RATE BASE (sum Ins 222, 229, 230, 231, 241, 242)		66,214,728		7,825,122

AEP East Companies  
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 Utilizing Historic Cost Data for 2010 with Year-End Rate Base Balances

KINGSPORT POWER COMPANY

	(1)	(2)	(3)	(4)	(5)
Line	EXPENSE, TAXES, RETURN & REVENUE REQUIREMENTS CALCULATION	Data Sources (See "General Notes")	TO Total	Allocator	Total Transmission
244	OPERATION & MAINTENANCE EXPENSE				
245	Production	321.80.b	123,834,031		
246	Distribution	322.156.b	2,326,363		
247	Customer Related Expense	322 & 323.164,171,178.b	2,331,463		
248	Regional Marketing Expenses	322.131.b	-		
249	Transmission	321.112.b	535,156		
250	TOTAL O&M EXPENSES	(sum Ins 244 to 248)	129,027,013		
251	Less: Total Account 561	(Note G) (Worksheet F, In 14.C)	52,441		
252	Less: Account 565	(Note H) 321.96.b	-		
253	Less: Regulatory Deferrals & Amortizations	(Note I) (Worksheet F, In 4.C)	-		
253	Total O&M Allocable to Transmission	(Ins 248 - 250 - 251 - 252)	482,715	TP	1.00000
254	Administrative and General	323.197.b (Note J)	2,558,648		
255	Less: Acct. 924, Property Insurance	323.185.b	110,260		
256	Acct. 9260039 PBOP Expense	PBOP Worksheet O Line 9 & 10, (Note K)	482,788		
257	Acct. 9260057 PBOP Medicare Subsidy	PBOP Worksheet O Line 11, (Note K)	(128,004)		
258	PBOP Expense Billed From AEPSC	PBOP Worksheet O Line 13, (Note K)	31,514		
259	Acct. 928, Reg. Com. Exp.	323.189.b	93		
260	Acct. 930.1, Gen. Advert. Exp.	323.191.b	18,591		
261	Acct. 930.2, Misc. Gen. Exp.	323.192.b	20,483		
262	Balance of A & G	(In 254 - sum In 255 to In 261)	2,022,923	W/S	0.08357
263	Plus: Acct. 924, Property Insurance	(In 255)	110,260	GP(h)	0.15150
264	Acct. 928 - Transmission Specific	Worksheet F In 20.(E) (Note L)	-	TP	1.00000
265	Acct 930.1 - Only safety related ads -Direct	Worksheet F In 37.(E) (Note L)	-	TP	1.00000
266	Acct 930.2 - Misc Gen. Exp. - Trans	Worksheet F In 43.(E) (Note L)	20,265	DA	1.00000
267	Settlement Approved PBOP Recovery	PBOP Worksheet O, Col. C, Line 5, (Note M)	369,629	W/S	0.08357
268	A & G Subtotal	(sum Ins 262 to 267)	2,523,077		
269	O & M EXPENSE SUBTOTAL	(In 253 + In 268)	3,005,791		
270	Plus: TEA Settlement in Account 565	Company Records (Note H)	-	DA	1.00000
271	Plus: Transmission Lease Payments To Affiliates in Acct 565 (Company Records) (Note H)		-	DA	1.00000
272	TOTAL O & M EXPENSE	(In 269 + In 270 + In 271)	3,005,791		
273	DEPRECIATION AND AMORTIZATION EXPENSE				
274	Production	336.2-6.f	-	NA	0.00000
275	Distribution	336.8.f	3,586,795	NA	0.00000
276	Transmission	336.7.f	476,751	TP1	1.00000
277	Plus: Transmission Plant-in-Service Additions (Worksheet I)		N/A		N/A
278	General	336.10.f	85,781	W/S	0.08357
279	Intangible	336.1.f	99,394	W/S	0.08357
280	TOTAL DEPRECIATION AND AMORTIZATION	(Ln 274+275+276+277+278+279) (Note N)	4,248,721		
281	TAXES OTHER THAN INCOME				
282	Labor Related				
283	Payroll	Worksheet H In 21.(D)	202,931	W/S	0.08357
284	Plant Related				
285	Property	Worksheet H In 21.(C) & In 35.(C)	1,035,665	DA	
286	Gross Receipts/Sales & Use	Worksheet H In 21.(F)	3,619,528	NA	0.00000
287	Other	Worksheet H In 21.(E)	670,950	GP(h)	0.15150
288	TOTAL OTHER TAXES	(sum Ins 283 to 287)	5,529,074		
289	INCOME TAXES	(Note O)			
290	$T=1 - ((1 - SIT) * (1 - FIT)) / (1 - SIT * FIT * p)$		39.23%		
291	$EIT=(T/(1-T)) * (1-(WCLTD/WACC))$		50.21%		
292	where WCLTD=(In 327) and WACC = (In 330)				
293	and FIT, SIT & p are as given in Note O.				
294	$GRCF=1 / (1 - T) =$ (from In 290)		1.6454		
295	Amortized Investment Tax Credit (enter negative)	(FF1 p.114, In 19.c)	-		
296	Income Tax Calculation	(In 291 * In 299)	2,845,697		
297	ITC adjustment	(In 294 * In 295)	-	NP(h)	0.12158
298	TOTAL INCOME TAXES	(sum Ins 296 to 297)	2,845,697		
299	RETURN ON RATE BASE (Rate Base*WACC)	(In 243 * In 330)	5,667,534		
300	INTEREST ON IPP CONTRIBUTION FOR CONST. (Note F) (Worksheet D, In 2.(B))		-	DA	1.00000
301	(Gains) / Losses on Sales of Plant Held for Future Use (Worksheet N, In 4, Cols. ((F) & (H))		-		
302	Tax Impact on Net Loss / (Gain) on Sales of Plant Held for Future Use (In 301 * In291)		-		
303	TOTAL REVENUE REQUIREMENT	(sum Ins 272, 280, 288, 298, 299, 300, 301, 302)	21,296,818		

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KINGSPORT POWER COMPANY

SUPPORTING CALCULATIONS

In								
No.	TRANSMISSION PLANT INCLUDED IN PJM TARIFF							
304	Total transmission plant	(In 185)					19,006,058	
305	Less transmission plant excluded from PJM Tariff (Note P)							
306	Less transmission plant included in OATT Ancillary Services (Worksheet A, In 23, Col. (C)) (Note Q)						-	
307	Transmission plant included in PJM Tariff	(In 304 - In 305 - In 306)					19,006,058	
308	Percent of transmission plant in PJM Tariff	(In 307 / In 304)					<b>TP= 1.0000</b>	
309	WAGES & SALARY ALLOCATOR (W/S)	(Note R)						
310	Production	354.20.b	Direct Payroll	Payroll Billed from	Total			
311	Transmission	354.21.b	722	AEP Service Corp.	-	NA	0.00000	
312	Regional Market Expenses	354.22.b	160,120	123,192	283,312	TP	1.00000	
313	Distribution	354.23.b	0	0	-	NA	0.00000	
314	Other (Excludes A&G)	354.24,25,26.b	2,001,153	335,857	2,337,010	NA	0.00000	
315	Total	(sum Ins 310 to 314)	2,422,228	967,757	3,389,985	NA	0.00000	
316	Transmission related amount						<b>W/S= 0.08357</b>	
317	WEIGHTED AVERAGE COST OF CAPITAL (WACC)						\$	
318	Long Term Interest	(Worksheet L, In. 35, col. (D))					904,000	
319	Preferred Dividends	(Worksheet L, In. 40, col. (D))					-	
320	Development of Common Stock:							
321	Proprietary Capital	(FF1 p 112, Ln 16.c)					27,572,018	
322	Less: Preferred Stock	(FF1 p 112, Ln 3.c)					-	
323	Less: Account 216.1	(FF1 p 112, Ln 12.c)					-	
324	Less: Account 219	(FF1 p 112, Ln 15.c)					6,182	
325	Common Stock	(In 321 - In 322 - In 323 - In 324)					27,565,836	
326			\$	%		Cost	Weighted	
327	Long Term Debt (Note T) Worksheet L, In 35, col. (B))		20,000,000	42.05%		0.0452	0.0190	
328	Preferred Stock (In 322)		-	0.00%		-	0.0000	
329	Common Stock (In 325)		27,565,836	57.95%		11.49%	0.0666	
330	Total (Sum Ins 327 to 329)		47,565,836				<b>WACC= 0.0856</b>	

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KINGSPORT POWER COMPANY

**Letter**

**Notes**

General Notes: a) References to data from Worksheets are indicated as: Worksheet X, Line#, Column.X

- A Revenue credits include:  
 1) Forfeited Discounts.  
 2) Miscellaneous Service Revenues.  
 3) Rental revenues earned on assets included in the rate base.  
 4) Revenues for associated business projects provided by employees whose labor and overhead costs are in the transmission cost of service.  
 5) Other electric revenues.  
 6) Revenues for grandfathered PTP contracts included in the load divisor.  
 See Worksheet E for details.
- B The annual and monthly net plant carrying charges on page 1 are used to compute the revenue requirement for RTEP sponsored upgrades or those projects receiving approved incentive-ROE's.
- C Transmission Plant balances in this study are historic as of December 31, 2010.
- D The total-company balances shown for Accounts 281, 282, 283, 190 only reflect ADIT that relates to utility operations. The balance of Account 255 is reduced by prior flow throughs and is completely excluded if the utility chose to utilize amortization of tax credits against FIT expense. An exception to this is pre-1971 ITC balances, which are required to be taken as an offset to rate base. Account 281 is not allocated. In compliance with FERC Rulemaking RM02-7-000, Asset Retirement Obligation deferrals have been removed from ratebase. Transmission ADIT allocations are shown on WS B. The company will not include the ADIT portion of deferred hedge gains and losses in rate base.
- E Cash Working Capital assigned to transmission is one-eighth of O&M allocated to transmission, as shown on line 253. It excludes:  
 1) Load Scheduling & Dispatch Charges in account 561 that are collected in the OATT Ancillary Services Revenue, as shown on line 250.  
 2) AEP transmission equalization transfers, as shown on line 251  
 3) The impact of state regulatory deferrals and amortizations, as shown on line 252  
 4) All A&G Expenses, as shown on line 268.
- F Consistent with Paragraph 657 of Order 2003-A, the amount on line 242 is equal to the balance of IPP System Upgrade Credits owed to transmission customers that made contributions toward the construction of System upgrades, and includes accrued interest and unreturned balance of contributions. The annual interest expense is included on line 300.
- G Removes from the cost of service the Load Scheduling and Dispatch expenses booked to accounts 561.1 through 561.8. Expenses recorded in these accounts, with the exception of 561.4 & 561.8 (lines 180 & 181 above) are recovered in Schedule 1A, OATT ancillary services rates. See Worksheet F, lines 5 through 14, for descriptions and the Form 1 Source of these accounts' balances.
- H Removes cost of transmission service provided by others to determine the basis of cash working capital on line 253. To the extent such service is incurred to provide the PJM service at issue, e.g. transmission equalization agreement, such costs are added back on lines 270 and 271 to determine the total O&M collected in the formula. The amounts on lines 270 and 271 are also excluded in the calculation of the FCR percentage calculated on lines 170 through 176. The addbacks on lines 270 and 271 of activity recorded in 565 represents inter-company sales or purchases of transmission capacity necessary to meet each AEP company's transmission load relative to their available transmission capacity. The company records referenced on lines 270 and 271 is the KINGSPORT POWER COMPANY general ledger.
- I Removes the impact of state regulatory deferrals or their amortization from O&M expense.
- J General Plant and Administrative & General expenses, other than in accounts 924, 928, and 930, will be functionalized based on the Wages & Salaries "W/S" allocator. The allocation basis for accounts 924, 928 and 930 are separately presented in the formula. A change in the allocation method for an account must be approved via a 205 filing with the FERC.
- K These deductions on lines 256 through 258 are to remove from the cost of service the expenses recorded by the company for Postemployment Benefits Other than Pensions (PBOP). See Note M below for the recoverable PBOP expense.
- L Expenses reported for these A&G accounts will be included in the cost of service only to the extent they are directly assignable to transmission service. Worksheet F allocates these expense items. Acct 928 Includes Regulatory Commission expenses itemized in FERC Form-1 at page 351, column H. FERC Assessment Fees and Annual Charges shall not be allocated to transmission. Only safety-related and educational advertising costs in Account 930.1 are included in the TCOS. Account 930.2 includes the expenses incurred by the transmission function for Associated Business Development revenues given as a credit to the TCOS on Worksheet E.
- M See note K above. Per the settlement in Docket ER08-1329, recoverable PBOP expense is based on an annual total for the seven operating companies that is ratioed to them based on the total of actual annual PBOP costs, including charges from the AEP Service Corporation. The calculation of the recoverable amount for each company is shown on Worksheet O, and the process for updating the annual total is documented on Attachment F, Allowable PBOP Expense Formula.
- N Includes only FICA, unemployment, highway, property and other assessments charged in the current year. Gross receipts, sales & use and taxes related to income are excluded.
- O The currently effective income tax rate, where FIT is the Federal income tax rate; SIT is the State income tax rate, and p = the percentage of federal income tax deductible for state income taxes. See Worksheet G for the development of the Company's composite SIT. A utility that elected to utilize amortization of tax credits against taxable income, rather than book tax credits to Account No. 255 and reduce rate base, must reduce its income tax expense by the amount of the Amortized Investment Tax Credit (Form 1, 266.8.f) (In 295) multiplied by (1/1-T). If the applicable tax rates are zero enter 0.  
 Inputs Required:  
 FIT = 35.00%  
 SIT = 6.50% (State Income Tax Rate or Composite SIT, Worksheet G)  
 p = 0.00% (percent of federal income tax deductible for state purposes)
- P Removes plant excluded from the OATT because it does not meet the PJM's definition of Transmission Facilities or is otherwise ineligible to be recovered under the OATT.
- Q Removes transmission plant (e.g. step-up transformers) included in the development of OATT ancillary service rates and not already removed for reasons indicated in Note P.
- R Includes functional wages & salaries billed by AEP Service Corporation for support of the operating company.
- S Long Term Debt cost rate = long-term interest (In 318) / long term debt (In 327). Preferred Stock cost rate = preferred dividends (In 319) / preferred outstanding (In 328). Common Stock cost rate (ROE) = 11.49%, the rate accepted by FERC in Docket No. ER08-1329. It includes an additional 50 basis points for remaining a member of the PJM RTO.  
 In the Projected & Historic templates, the interest expense on long-term debt is the sum of a full year's interest expense at the coupon rate for each issuance outstanding as of December 31 of the historic year. The projected expense for variable rate debt will be based on the effective rate at December 31. These conventions ensure that the expense used in the projection will reflect a full year, similar to the actual expense that will appear in the subsequent true-up of the projection, and minimize the impact on the true-up of using a partial year interest expense. The projection will reflect the actual historic-year expense recorded for issuance expenses, discounts and premiums, and gains or losses on reacquired debt. Eligible hedging gains or losses will be limited to five basis points of the projected capital structure. Details and calculations are shown on Worksheet L.
- T This note only applies to Indiana Michigan Power Company.
- U This note only applies to the true-up template.

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Line No.			Total	Allocator	Transmission Amount
1	REVENUE REQUIREMENT (w/o incentives)	(In 138)			\$2,284,070
2	REVENUE CREDITS	(Note A) (Worksheet E)	125,083	DA 1.00000	\$ 125,083
3	REVENUE REQUIREMENT For All Company Facilities	(In 1 less In 2)			\$ 2,158,987

**MEMO: The Carrying Charge Calculations on lines 6 to 11 below are used in calculating project revenue requirements billed through PJM Schedule 12, Transmission Enhancement Charges. The total non-incentive revenue requirements for these projects shown on line 4 is included in the total on line 3.**

4	Revenue Requirement for PJM Schedule 12 Facilities (w/o incentives) (Worksheet K)		-	DA 1.00000	\$ -
5	NET PLANT CARRYING CHARGE w/o intra-AEP charges or credits or ROE incentives (Note B)				
6	Annual Rate	((In 1 - In 105 - In 106) / In 48 x 100)			26.94%
7	Monthly Rate	(In 6 / 12)			2.24%
8	NET PLANT CARRYING CHARGE ON LINE 6, w/o depreciation or ROE incentives (Note B)				
9	Annual Rate	((In 1 - In 105 - In 106 - In 111) / In 48 x 100)			21.31%
10	NET PLANT CARRYING CHARGE ON LINE 9, w/o Return, income taxes or ROE incentives (Note B)				
11	Annual Rate	((In 1 - In 105 - In 106 - In 111 - In 133 - In 134) / In 48 x 100)			11.54%
12	ADDITIONAL REVENUE REQUIREMENT for projects w/ incentive ROE's (Note B) (Worksheet K)				-
13	<b>REVENUE REQUIREMENT FOR SCHEDULE 1A CHARGES</b>				
14	Total Load Dispatch & Scheduling (Account 561)	Line 85 Below			52,441
15	Less: Load Dispatch - Scheduling, System Control and Dispatch Services (321.88.b)				-
16	Less: Load Dispatch - Reliability, Planning & Standards Development Services (321.92.b)				-
17	Total 561 Internally Developed Costs	(Line 14 - Line 15 - Line 16)			52,441

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Line No.	(1) <b>RATE BASE CALCULATION</b>	(2) <b>Data Sources (See "General Notes")</b>	(3) <b>TO Total NOTE C</b>	(4) <b>Allocator</b>	(5) <b>Total Transmission</b>
18	GROSS PLANT IN SERVICE				
18	Production	(Worksheet A In 1.E)	-	NA	0.00000
19	Less: Production ARO (Enter Negative)	(Worksheet A In 2.E)	-	NA	0.00000
20	Transmission	(Worksheet A In 3.C & Ln 142)	18,269,204	DA	18,269,204
21	Less: Transmission ARO (Enter Negative)	(Worksheet A In 4.C & Ln 143)	-	TP	1.00000
22	Plus: Transmission Plant-in-Service Additions (Worksheet I)		N/A	NA	0.00000
23	Plus: Additional Trans Plant on Transferred Assets (Worksheet I)		N/A	NA	0.00000
24	Distribution	(Worksheet A In 5.E)	102,812,924	NA	0.00000
25	Less: Distribution ARO (Enter Negative)	(Worksheet A In 6.E)	-	NA	0.00000
26	General Plant	(Worksheet A In 7.E)	2,398,729	W/S	0.08357
27	Less: General Plant ARO (Enter Negative)	(Worksheet A In 8.E)	-	W/S	0.08357
28	Intangible Plant	(Worksheet A In 9.E)	1,075,884	W/S	0.08357
29	TOTAL GROSS PLANT	(sum Ins 18 to 28)	124,556,740	GP(h)=	0.14901
				GTD=	0.00000
30	ACCUMULATED DEPRECIATION AND AMORTIZATION				
31	Production	(Worksheet A In 12.E)	-	NA	0.00000
32	Less: Production ARO (Enter Negative)	(Worksheet A In 13.E)	-	NA	0.00000
33	Transmission	(Worksheet A In 14.E & 28.E)	9,789,554	TP1=	1.00000
34	Less: Transmission ARO (Enter Negative)	(Worksheet A In 15.E)	-	TP1=	1.00000
35	Plus: Transmission Plant-in-Service Additions (Worksheet I)		N/A	DA	1.00000
36	Plus: Additional Projected Deprec on Transferred Assets (Worksheet I)		N/A	DA	1.00000
37	Plus: Additional Transmission Depreciation for 2011 (In 111)		N/A	TP1	1.00000
38	Plus: Additional General & Intangible Depreciation for 2011 (In 110 + In 111)		N/A	W/S	0.08357
39	Plus: Additional Accum Deprec on Transferred Assets (Worksheet I)		N/A	DA	1.00000
40	Distribution	(Worksheet A In 16.E)	38,097,991	NA	0.00000
41	Less: Distribution ARO (Enter Negative)	(Worksheet A In 17.E)	-	NA	0.00000
42	General Plant	(Worksheet A In 18.E)	633,647	W/S	0.08357
43	Less: General Plant ARO (Enter Negative)	(Worksheet A In 19.E)	-	W/S	0.08357
44	Intangible Plant	(Worksheet A In 20.E)	1,359,810	W/S	0.08357
45	TOTAL ACCUMULATED DEPRECIATION	(sum Ins 31 to 44)	49,881,001		
46	NET PLANT IN SERVICE				
47	Production	(In 18 + In 19 - In 31 - In 32)	-		
48	Transmission	(In 20 + In 21 - In 33 - In 34)	8,479,650		
49	Plus: Transmission Plant-in-Service Additions (In 22 - In 35)		N/A		
50	Plus: Additional Trans Plant on Transferred Assets (In 23 - In 36)		N/A		
51	Plus: Additional Transmission Depreciation for 2011 (-In 37)		N/A		
52	Plus: Additional General & Intangible Depreciation for 2011 (-In 38)		N/A		
53	Plus: Additional Accum Deprec on Transferred Assets (Worksheet I) (-In 39)		N/A		
54	Distribution	(In 24 + In 25 - In 40 - In 41)	64,714,933		
55	General Plant	(In 26 + In 27 - In 42 - In 43)	1,765,082		
56	Intangible Plant	(In 28 - In 44)	(283,926)		
57	TOTAL NET PLANT IN SERVICE	(sum Ins 47 to 56)	74,675,739	NP(h)=	0.11521
58	DEFERRED TAX ADJUSTMENTS TO RATE BASE	(Note D)			
59	Account No. 281.1 (enter negative)	(Worksheet B, In 2 & In 5.E)	-	NA	
60	Account No. 282.1 (enter negative)	(Worksheet B, In 7 & In 10.E)	(11,850,431)	DA	(1,896,778)
61	Account No. 283.1 (enter negative)	(Worksheet B, In 12 & In 15.E)	(803,164)	DA	(157,554)
62	Account No. 190.1 (enter negative)	(Worksheet B, In 17 & In 20.E)	648,424	DA	67,784
63	Account No. 255 (enter negative)	(Worksheet B, In 24 & In 25.E)	(186,383)	DA	(39,645)
64	TOTAL ADJUSTMENTS	(sum Ins 59 to 63)	(12,191,555)		(2,026,192)
65	PLANT HELD FOR FUTURE USE	(Worksheet A In 29.E & In 30.E)	246,973	DA	
66	REGULATORY ASSETS	(Worksheet A In 36. (E))	-	DA	
67	WORKING CAPITAL	(Note E)			
68	Cash Working Capital	(1/8 * In 88)	60,339		60,339
69	Transmission Materials & Supplies	(Worksheet C, In 2.F)	2,384	TP	1.00000
70	A&G Materials & Supplies	(Worksheet C, In 3.F)	1,678	W/S	0.08357
71	Stores Expense	(Worksheet C, In 4.(D))	-	GP(h)	0.14901
72	Prepayments (Account 165) - Labor Allocated	(Worksheet C, In 8.G)	4,082,156	W/S	0.08357
73	Prepayments (Account 165) - Gross Plant	(Worksheet C, In 8.F)	1,894,278	GP(h)	0.14901
74	Prepayments (Account 165) - Transmission Only	(Worksheet C, In 8.E)	-	DA	1.00000
75	Prepayments (Account 165) - Unallocable	(Worksheet C, In 8.D)	(4,023,657)	NA	0.00000
76	TOTAL WORKING CAPITAL	(sum Ins 68 to 75)	2,017,177		
77	IPP CONTRIBUTIONS FOR CONSTRUCTION	(Note F) (Worksheet D, In 8 (B))	-	DA	1.00000
78	RATE BASE (sum Ins 57, 64, 65, 66, 76, 77)		64,748,334		7,263,522

AEP East Companies  
 Transmission Cost of Service Formula Rate  
 Utilizing Actual Cost Data for 2010 with Average Ratebase Balances

KINGSPORT POWER COMPANY

Line No.	(1) EXPENSE, TAXES, RETURN & REVENUE REQUIREMENTS CALCULATION	(2) Data Sources (See "General Notes")	(3) TO Total	(4) Allocator	(5) Total Transmission
79	OPERATION & MAINTENANCE EXPENSE				
79	Production	321.80.b	123,834,031		
80	Distribution	322.156.b	2,326,363		
81	Customer Related Expense	322.164,171,178.b	2,331,463		
82	Regional Marketing Expenses	322.131.b	-		
83	Transmission	321.112.b	535,156		
84	TOTAL O&M EXPENSES	(sum Ins 79 to 83)	129,027,013		
85	Less: Total Account 561	(Note G) (Worksheet F, In 14.C)	52,441		
86	Less: Account 565	(Note H) 321.96.b	-		
87	Less: Regulatory Deferrals & Amortizations	(Note I) (Worksheet F, In 4.C)	-		
88	Total O&M Allocable to Transmission	(Ins 83 - 85 - 86 - 87)	482,715	TP 1.00000	482,715
89	Administrative and General	323.197.b (Note J)	2,558,648		
90	Less: Acct. 924, Property Insurance	323.185.b	110,260		
91	Acct. 9260039 PBOP Expense	PBOP Worksheet O Line 9 & 10, (Note K)	482,788		
92	Acct. 9260057 PBOP Medicare Subsidy	PBOP Worksheet O Line 11, (Note K)	(128,004)		
93	PBOP Expense Billed From AEPSC	PBOP Worksheet O Line 13, (Note K)	31,514		
94	Acct. 928, Reg. Com. Exp.	323.189.b	93		
95	Acct. 930.1, Gen. Advert. Exp.	323.191.b	18,591		
96	Acct. 930.2, Misc. Gen. Exp.	323.192.b	20,483		
97	Balance of A & G	(In 89 - sum In 90 to In 96)	2,022,923	W/S	169,062
98	Plus: Acct. 924, Property Insurance	(In 90)	110,260	GP(h)	16,429
99	Acct. 928 - Transmission Specific	Worksheet F In 20.(E) (Note L)	-	TP	-
100	Acct 930.1 - Only safety related ads -Direct	Worksheet F In 37.(E) (Note L)	-	TP	-
101	Acct 930.2 - Misc Gen. Exp. - Trans	Worksheet F In 43.(E) (Note L)	20,265	DA	20,265
102	Settlement Approved PBOP Recovery	PBOP Worksheet O, Col. C, Line 5, (Note M)	369,629	W/S	30,891
103	A & G Subtotal	(sum Ins 97 to 102)	2,523,077	0.08357	236,647
104	O & M EXPENSE SUBTOTAL	(In 88 + In 103)	3,005,791		719,362
105	Plus: TEA Settlement in Account 565	Company Records (Note H)	-	DA	-
106	Plus: Transmission Lease Payments To Affiliates in	Acct 565 (Company Records) (Note H)	-	DA	-
107	TOTAL O & M EXPENSE	(In 104 + In 105 + In 106)	3,005,791		719,362
108	DEPRECIATION AND AMORTIZATION EXPENSE				
109	Production	336.2-6.f	-	NA	-
110	Distribution	336.8.f	3,586,795	NA	-
111	Transmission	336.7.f	476,751	TP1	476,751
112	Plus: Transmission Plant-in-Service Additions (Worksheet I)		N/A		N/A
113	General	336.10.f	85,781	W/S	7,169
114	Intangible	336.1.f	99,394	W/S	8,307
115	TOTAL DEPRECIATION AND AMORTIZATION	(Ln 109+110+ 111+112+113+114)	4,248,721		492,227
116	TAXES OTHER THAN INCOME	(Note N)			
117	Labor Related				
118	Payroll	Worksheet H In 21.(D)	202,931	W/S	16,960
119	Plant Related				
120	Property	Worksheet H In 21.(C) & In 35.(C)	1,035,665	DA	126,693
121	Gross Receipts/Sales & Use	Worksheet H In 21.(F)	3,619,528	NA	-
122	Other	Worksheet H In 21.(E)	670,950	GP(h)	99,975
123	TOTAL OTHER TAXES	(sum Ins 118 to 122)	5,529,074		243,628
124	INCOME TAXES	(Note O)			
125	$T=1 - \{[(1 - \text{SIT}) * (1 - \text{FIT})] / (1 - \text{SIT} * \text{FIT} * p)\} =$		39.23%		
126	$\text{EIT}=(T/(1-T)) * (1-(\text{WCLTD}/\text{WACC})) =$		55.63%		
127	where WCLTD=(In 162) and WACC = (In 165)				
128	and FIT, SIT & p are as given in Note O.				
129	$\text{GRCF}=1 / (1 - T) =$ (from In 125)		1.6454		
130	Amortized Investment Tax Credit (enter negative)	(FF1 p.114, In 19.c)	-		
131	Income Tax Calculation	(In 126 * In 134)	2,641,051		296,275
132	ITC adjustment	(In 129 * In 130)	-	NP(h)	-
133	TOTAL INCOME TAXES	(sum Ins 131 to 132)	2,641,051	0.11521	296,275
134	RETURN ON RATE BASE (Rate Base*WACC)	(In 78 * In 165)	4,747,494		532,578
135	INTEREST ON IPP CONTRIBUTION FOR CONST. (Note F) (Worksheet D, In 2.(B))		-	DA	-
136	(Gains) / Losses on Sales of Plant Held for Future Use (Worksheet N, In 4, Cols. ((F) & (H))		-		-
137	Tax Impact on Net Loss / (Gain) on Sales of Plant Held for Future Use (In 136 * In126)		-		-
138	TOTAL REVENUE REQUIREMENT (sum Ins 107, 115, 123, 133, 134, 135)		20,172,132		2,284,070



AEP East Companies  
 Transmission Cost of Service Formula Rate  
 Utilizing Actual Cost Data for 2010 with Average Ratebase Balances

KINGSPORT POWER COMPANY

**Letter**

**Notes**

General Notes: a) References to data from Worksheets are indicated as: Worksheet X, Line#.Column.X

- A Revenue credits include:  
 1) Forfeited Discounts.  
 2) Miscellaneous Service Revenues.  
 3) Rental revenues earned on assets included in the rate base.  
 4) Revenues for associated business projects provided by employees whose labor and overhead costs are in the transmission cost of service.  
 5) Other electric revenues.  
 6) Revenues for grandfathered PTP contracts included in the load divisor.  
 See Worksheet E for details.
- B The annual and monthly net plant carrying charges on page 1 are used to compute the revenue requirement for RTEP sponsored upgrades or those projects receiving approved incentive-ROE's.
- C Transmission Plant balances in this study reflect the average of the balances at December 31, 2009 and December 31, 2010.
- D The total-company balances shown for Accounts 281, 282, 283, 190 only reflect ADIT that relates to utility operations. The balance of Account 255 is reduced by prior flow throughs and is completely excluded if the utility chose to utilize amortization of tax credits against FIT expense. An exception to this is pre-1971 ITC balances, which are required to be taken as an offset to rate base. Account 281 is not allocated. In compliance with FERC Rulemaking RM02-7-000, Asset Retirement Obligation deferrals have been removed from ratebase. Transmission ADIT allocations are shown on WS B. The company will not include the ADIT portion of deferred hedge gains and losses in rate base.
- E Cash Working Capital assigned to transmission is one-eighth of O&M allocated to transmission, as shown on line 88. It excludes:  
 1) Load Scheduling & Dispatch Charges in account 561 that are collected in the OATT Ancillary Revenue, as shown on line 85.  
 2) AEP transmission equalization transfers, as shown on line 86  
 3) The impact of state regulatory deferrals and amortizations, as shown on line 87  
 4) All A&G Expenses, as shown on line 103.
- F Consistent with Paragraph 657 of Order 2003-A, the amount on line 77 is equal to the balance of IPP System Upgrade Credits owed to transmission customers that made contributions toward the construction of System upgrades, and includes accrued interest and unreturned balance of contributions. The annual interest expense is included on line 135.
- G Removes from the cost of service the Load Scheduling and Dispatch expenses booked to accounts 561.1 through 561.8. Expenses recorded in these accounts, with the exception of 561.4 & 561.8 (lines 15 & 16 above) are recovered in Schedule 1A, OATT ancillary services rates. See Worksheet F, lines 5 through 14, for descriptions and the Form 1 Source of these accounts' balances.
- H Removes cost of transmission service provided by others to determine the basis of cash working capital on line 88. To the extent such service is incurred to provide the PJM service at issue, e.g. transmission equalization agreement, such costs are added back on lines 105 and 106 to determine the total O&M collected in the formula. The amounts on lines 105 and 106 are also excluded in the calculation of the FCR percentage calculated on lines 5 through 11. The addbacks on lines 105 and 106 of activity recorded in 565 represents inter-company sales or purchases of transmission capacity necessary to meet each AEP company's transmission load relative to their available transmission capacity. The company records referenced on lines 105 and 106 is the KINGSPORT POWER COMPANY general ledger.
- I Removes the impact of state regulatory deferrals or their amortization from O&M expense. applicable only for state regulatory purposes.
- J General Plant and Administrative & General expenses, other than in accounts 924, 928, and 930, will be functionalized based on the Wages & Salaries "W/S" allocator. The allocation basis for accounts 924, 928 and 930 are separately presented in the formula. A change in the allocation method for an account must be approved via a 205 filing with the FERC.
- K These deductions on lines 91 through 93 are to remove from the cost of service the expenses recorded by the company for Postemployment Benefits Other than Pensions (PBOP). See Note M below for the recoverable PBOP expense.
- L Expenses reported for these A&G accounts will be included in the cost of service only to the extent they are directly assignable to transmission service. Worksheet F allocates these expense items. Act 928 includes Regulatory Commission expenses itemized in FERC Form-1 at page 351, column H. FERC Assessment Fees and Annual Charges shall not be allocated to transmission. Only safety-related and educational advertising costs in Account 930.1 are included in the TCOS. Account 930.2 includes the expenses incurred by the transmission function for Associated Business Development revenues given as a credit to the TCOS on Worksheet E.
- M See note K above. Per the settlement in Docket ER08-1329, recoverable PBOP expense is based on an annual total for the seven operating companies that is ratioed to them based on the total of actual annual PBOP costs, including charges from the AEP Service Corporation. The calculation of the recoverable amount for each company is shown on Worksheet O, and the process for updating the annual total is documented on Attachment F, Allowable PBOP Expense Formula.
- N Includes only FICA, unemployment, highway, property and other assessments charged in the current year. Gross receipts, sales & use and taxes related to income are excluded.
- O The currently effective income tax rate, where FIT is the Federal income tax rate; SIT is the State income tax rate, and p = the percentage of federal income tax deductible for state income taxes. See Worksheet G for the development of the Company's composite SIT. A utility that elected to utilize amortization of tax credits against taxable income, rather than book tax credits to Account No. 255 and reduce rate base, must reduce its income tax expense by the amount of the Amortized Investment Tax Credit (Form 1, 266.8.f) (In 130) multiplied by (1/1-T). If the applicable tax rates are zero enter 0.  
 Inputs Required: FIT = 35.00%  
 SIT = 6.50% (State Income Tax Rate or Composite SIT. Worksheet G)  
 p = 0.00% (percent of federal income tax deductible for state purposes)
- P Removes plant excluded from the OATT because it does not meet the PJM's definition of Transmission Facilities or is otherwise ineligible to be recovered under the OATT.
- Q Removes transmission plant (e.g. step-up transformers) included in the development of OATT ancillary service rates and not already removed for reasons indicated in Note P.
- R Includes functional wages & salaries billed by AEP Service Corporation for support of the operating company.
- S Long Term Debt cost rate = long-term interest (In 153) / long term debt (In 162). Preferred Stock cost rate = preferred dividends (In 154) / preferred outstanding (In 163). Common Stock cost rate (ROE) = 11.49%, the rate accepted by FERC in Docket No. ER08-1329. It includes an additional 50 basis points for PJM RTO membership. Interest expense for the true-up WACC is based on actual expenses for the true-up year. The amount of eligible hedging gains or losses included in total interest expense is limited to five basis points of the true-up capital structure. Details and calculations of the true-up weighted average cost of capital are shown on Worksheet M. Eligible Hedging Gains and Losses are defined in the Formula Protocols in the tariff, and on Worksheet M.
- T This note only applies to Indiana Michigan Power Company.
- U Per Settlement, equity for KINGSPORT POWER COMPANY is limited to 100% of Capital Structure. If the percentage of equity exceeds the cap, the excess is included in weighted percentage of long term debt in the capital structure. During the period ended December 31, 2011 the equity cap is in effect. During this period, a change in the cap percentage must be approved via a 205 filing with the FERC.

AEP East Companies  
 Cost of Service Formula Rate Using 2010 FF1 Balances  
 Worksheet A Supporting Plant Balances  
 KINGSPORT POWER COMPANY

Line	(A)	(B)	(C)	(D)	(E)
Number	Rate Base Item & Supporting Balance	Source of Data	Balance @ December 31, 2010	Balance @ December 31, 2009	Average Balance for 2010
<b>Plant Investment Balances</b>					
1	Production Plant In Service	FF1, page 205 Col.(g) & pg. 204 Col. (b), ln 46	-	-	-
2	Production Asset Retirement Obligation (ARO)	FF1, page 205&204, Col.(g)&(b), lns 15,24,34,44	-	-	-
3	Transmission Plant In Service	FF1, page 207 Col.(g) & pg. 206 Col. (b), ln 58	19,006,058	17,532,350	18,269,204
4	Transmission Asset Retirement Obligation	FF1, page 207 Col.(g) & pg. 206 Col. (b), ln 57	-	-	-
5	Distribution Plant In Service	FF1, page 207 Col.(g) & pg. 206 Col. (b), ln 75	104,884,065	100,741,783	102,812,924
6	Distribution Asset Retirement Obligation	FF1, page 207 Col.(g) & pg. 206 Col. (b), ln 74	-	-	-
7	General Plant In Service	FF1, page 207 Col.(g) & pg. 206 Col. (b), ln 99	2,388,946	2,408,511	2,398,729
8	General Asset Retirement Obligation	FF1, page 207 Col.(g) & pg. 206 Col. (b), ln 98	-	-	-
9	Intangible Plant In Service	FF1, page 205 Col.(g) & pg. 204 Col. (b), ln 5	1,097,382	1,054,385	1,075,884
10	Total Property Investment Balance	(Sum of Lines: 3, 1, 5, 7, 9)	127,376,451	121,737,029	124,556,740
11	Total ARO Balance (included in total on line 10)	(Sum of Lines: 4, 2, 6, 8)	-	-	-
<b>Accumulated Depreciation &amp; Amortization Balances</b>					
12	Production Accumulated Depreciation	FF1, page 219, lns 20-24, Col. (b)	-	-	-
13	Production ARO Accumulated Depreciation	Company Records - Note 1	-	-	-
14	Transmission Accumulated Depreciation	FF1, page 219, ln 25, Col. (b)	9,870,172	9,708,936	9,789,554
15	Transmission ARO Accumulated Depreciation	Company Records - Note 1	-	-	-
16	Distribution Accumulated Depreciation	FF1, page 219, ln 26, Col. (b)	39,337,935	36,858,046	38,097,991
17	Distribution ARO Accumulated Depreciation	Company Records - Note 1	-	-	-
18	General Accumulated Depreciation	FF1, page 219, ln 28, Col. (b)	634,319	632,975	633,647
19	General ARO Accumulated Depreciation	Company Records - Note 1	-	-	-
20	Intangible Accumulated Amortization	FF1, page 200, ln 21, Col. (b)	1,381,887	1,337,732	1,359,810
21	Total Accumulated Depreciation or Amortization	(Sum of Lines: 14, 12, 16, 18, 20)	51,224,313	48,537,689	49,881,001
22	Total ARO Balance (included in total on line 21)	(Sum of Lines: 15, 13, 17, 19)	-	-	-
<b>Generation Step-Up Units</b>					
23	GSU Investment Amount	Company Records - Note 1	-	-	-
24	GSU Accumulated Depreciation	Company Records - Note 1	-	-	-
25	GSU Net Balance	(Line 23 - Line 24)	-	-	-
<b>Transmission Accumulated Depreciation Net of GSU Accumulated Depreciation</b>					
26	Transmission Accumulated Depreciation	(Line 14 Above)	9,870,172	9,708,936	9,789,554
27	Less: GSU Accumulated Depreciation	(Line 24 Above)	-	-	-
28	Subtotal of Transmission Net of GSU	(Line 26 - Line 27)	9,870,172	9,708,936	9,789,554
<b>Plant Held For Future Use</b>					
29	Plant Held For Future Use	FF1, page 214, ln 47, Col. (d)	246,973	246,973	246,973
30	Transmission Plant Held For Future	Company Records - Note 1	-	-	-
<b>Regulatory Assets and Liabilities Approved for Recovery In Ratebase</b>					
Note: Regulatory Assets & Liabilities can only be included in ratebase pursuant to a 205 filing with the FERC.					
31					-
32					-
33					-
34					-
35					-
36	Total Regulatory Deferrals Included in Ratebase		-	-	-

NOTE 1 On this worksheet, "Company Records" refers to AEP's property accounting ledger.

NOTE: The ratebase should not include the unamortized balance of hedging gains or losses.

AEP East Companies  
 Cost of Service Formula Rate Using 2010 FF1 Balances  
 Worksheet B Supporting ADIT and ITC Balances  
 KINGSPORT POWER COMPANY

<u>Line Number</u>	<u>(A) Description</u>	<u>(B) Source</u>	<u>(C) Balance @ December 31, 2010</u>	<u>(D) Balance @ December 31, 2009</u>	<u>(E) Average Balance for 2010</u>
1	<b><u>Account 281</u></b>				
2	Year End Utility Deferrals	FF1, p. 272 - 273, In 8, Col. (k)	-	-	-
3	Less: ARO Related Deferrals	Company Records - Note 1	-	-	-
4	Less: Other Excluded Deferrals	Company Records - Note 1	-	-	-
5	Transmission Related Deferrals	Ln 2 - In 3 - In 4	-	-	-
6	<b><u>Account 282</u></b>				
7	Year End Utility Deferrals	FF1, p. 274 - 275, In 5, Col. (k)	12,463,403	11,237,460	11,850,431
8	Less: ARO Related Deferrals	Company Records - Note 1	0	0	-
9	Less: Other Excluded Deferrals	Company Records - Note 1	10,438,619	9,468,688	9,953,654
10	Transmission Related Deferrals	Ln 7 - In 8 - In 9	2,024,783	1,768,772	1,896,778
11	<b><u>Account 283</u></b>				
12	Year End Utility Deferrals	FF1, p. 276 - 277, In 9, Col. (k)	486,620	1,119,708	803,164
13	Less: ARO Related Deferrals	Company Records - Note 1	0	0	-
14	Less: Other Excluded Deferrals	Company Records - Note 1	330,890	960,330	645,610
15	Transmission Related Deferrals	Ln 12 - In 13 - In 14	155,730	159,378	157,554
16	<b><u>Account 190</u></b>				
17	Year End Utility Deferrals	FF1, p. 234, In 8, Col. (c)	622,764	674,083	648,424
18	Less: ARO Related Deferrals	Company Records - Note 1	0	0	-
19	Less: Other Excluded Deferrals	Company Records - Note 1	585,041	576,239	580,640
20	Transmission Related Deferrals	Ln 17 - In 18 - In 19	37,723	97,844	67,784
21	<b><u>Account 255</u></b>				
22	Year End ITC Balances	FF1, p. 266-267, In 8, Col. (h)	160,107	212,659	186,383
23	Less: Balances Not Qualified for Ratebase	Company Records - Note 1	0	0	-
24	ITC Balances Includeable Ratebase	Ln 22 - In 23	160,107	212,659	186,383
25	Transmission Related Deferrals	Company Records - Note 1	34,044	45,245	39,645

NOTE 1 On this worksheet, "Company Records" refers to AEP's tax accounting ledger.

NOTE 2 ADIT balances should exclude balances related to hedging activity.

AEP East Companies  
 Cost of Service Formula Rate Using 2010 FF1 Balances  
 Worksheet C Supporting Working Capital Rate Base Adjustments  
 KINGSPORT POWER COMPANY

(A)	(B)	(C)	(D)	(E)	(F)	(G)	(H)	(I)
<b>Materials &amp; Supplies</b>								
Line Number	Source	Balance @ December 31, 2010	Balance @ December 31, 2009	Average Balance for 2010				
1								
2	Transmission Materials & Supplies	FF1, p. 227, In 8, Col. (c) & (b)	256	4,511	2,384			
3	General Materials & Supplies	FF1, p. 227, In 11, Col. (c) & (b)	347	3,008	1,678			
4	Stores Expense (Undistributed)	FF1, p. 227, In 16, Col. (c) & (b)	0	0	-			

**Prepayment Balance Summary**

	Average of YE Balance	Excludable Balances	100% Transmission Related	Transmission Plant Related	Transmission Labor Related	Total Included in Ratebase (E)+(F)+(G)	
5							
6	Totals as of December 31, 2010	2,242,039	(4,150,058)	0	2,184,358	4,207,740	6,392,098
7	Totals as of December 31, 2009	1,663,513	(3,897,256)	0	1,604,197	3,956,572	5,560,769
8	<b>Average Balance</b>	<b>1,952,776</b>	<b>(4,023,657)</b>	<b>-</b>	<b>1,894,278</b>	<b>4,082,156</b>	<b>5,976,433</b>

**Prepayments Account 165 - Balance @ 12/31/2010**

9	Acc. No.	Description	2010 YE Balance	Excludable Balances	100% Transmission Related	Transmission Plant Related	Transmission Labor Related	Total Included in Ratebase (E)+(F)+(G)	Explanation
10	1650001	Prepaid Insurance	27,456	-	-	27,456	-	27,456	Plant Related Insurance Policies
11	16500210	Prepaid Taxes	2,056,264	-	-	2,056,264	-	2,056,264	Prepaid Taxes
12	1650003	Prepaid Rents	0	-	-	-	-	-	Prepaid Distribution Rent Expense
13	1650004	Prepaid Interest	0	-	-	-	-	-	
14	1650005	Prepaid Employee Benefits	0	-	-	-	-	-	
15	1650006	Other Prepayments	0	-	-	-	-	-	
16	1650009	Prepaid Carry Cost-Factored AR	8,431	8,431	-	-	-	-	AR Factoring - Retail Only
17	1650010	Prepaid Pension Benefits	4,207,740	-	-	-	4,207,740	4,207,740	Prefunded Pension Expense
18	1650014	FAS 158 Qual Contra Asset	(4,207,740)	(4,207,740)	-	-	-	-	SFAS 158 Offset
19	1650016	FAS 112 ASSETS	0	-	-	-	-	-	SFAS 112 Overfunding Asset
20	1650021	Prepaid Insurance - EIS	100,638	-	-	100,638	-	100,638	
21	1650023	Prepaid Lease	49,251	49,251	-	-	-	-	
<b>Subtotal - Form 1, p 111.57.c</b>			<b>2,242,039</b>	<b>(4,150,058)</b>	<b>0</b>	<b>2,184,358</b>	<b>4,207,740</b>	<b>6,392,098</b>	

**Prepayments Account 165 - Balance @ 12/31/ 2009**

22	Acc. No.	Description	2009 YE Balance	Excludable Balances	100% Transmission Related	Transmission Plant Related	Transmission Labor Related	Total Included in Ratebase (E)+(F)+(G)	Explanation
23	1650001	Prepaid Insurance	26,598	-	-	26,598	-	26,598	Plant Related Insurance Policies
24	165000209	Prepaid Taxes	1,561,895	-	-	1,561,895	-	1,561,895	Prepaid PSC Fees
25	165000207	Prepaid Taxes	0	-	-	0	-	-	Prepaid Distribution Rent Expense
26	165000208	Prepaid Taxes	0	-	-	-	-	-	
27	1650003	Prepaid Rents	0	0	-	-	-	-	
28	1650004	Prepaid Interest	0	0	-	-	-	-	
29	1650006	Other Prepayments	0	0	-	-	-	-	
30	1650009	Prepaid Carry Cost-Factored AR	7,618	7,618	-	-	-	-	AR Factoring - Retail Only
31	1650010	Prepaid Pension Benefits	3,956,572	-	-	-	3,956,572	3,956,572	Prefunded Pension Expense
32	1650014	FAS 158 Qual Contra Asset	(3,956,572)	(3,956,572)	-	-	-	-	SFAS 158 Offset
33	1650016	FAS 112 ASSETS	0	0	-	-	-	-	SFAS 112 Overfunding Asset
34	1650021	Prepaid Insurance - EIS	15,704	-	-	15,704	-	15,704	
35	1650023	Prepaid Lease	51,698	51,698	-	-	-	-	
<b>Subtotal - Form 1, p 111.57.d</b>			<b>1,663,513</b>	<b>(3,897,256)</b>	<b>0</b>	<b>1,604,197</b>	<b>3,956,572</b>	<b>5,560,769</b>	

AEP East Companies  
 Cost of Service Formula Rate Using 2010 FF1 Balances  
 Worksheet D Supporting IPP Credits  
 KINGSPORT POWER COMPANY

<u>Line Number</u>	<u>(A) Description</u>	<u>(B) 2010</u>
1	Net Funds from IPP Customers 12/31/2010 (2010 FORM 1, P269, line 24.b)	-
2	Interest Accrual (Company Records - Note 1)	-
3	Revenue Credits to Generators (Company Records - Note 1)	-
4	<u>Other Adjustments</u>	
5	Accounting Adjustment (Company Records - Note 1)	-
6		-
7	Net Funds from IPP Customers 12/31/2010 (2010 FORM 1, P269, line 24.f)	-
8	Average Balance for Year as Indicated in Column ((In 1 + In 7)/2)	-

Note 1 On this worksheet Company Records refers to KINGSPORT POWER COMPANY's general ledger.

AEP East Companies  
 Cost of Service Formula Rate Using 2010 FF1 Balances  
 Worksheet E Supporting Revenue Credits  
 KINGSPORT POWER COMPANY

<u>Line Number</u>	<u>Description</u>	<u>Total Company</u>	<u>Non-Transmission</u>	<u>Transmission</u>
1	Account 450, Forfeited Discounts (FF1 p.300.16.(b); Company Records - Note 1)	252,890	252,890	-
2	Account 451, Miscellaneous Service Revenues (FF1 p.300.17.(b); Company Records - Note 1)	11,612	11,612	-
3	Account 454, Rent from Electric Property (FF1 p.300.19.(b); Company Records - Note 1)	2,034,948	1,995,720	39,228
4	Account 4560015, Associated Business Development - (Company Records - Note 1)	165,467	79,612	85,855
5	Account 456 - Other Electric Revenues - (Company Records - Note 1)	289,007	289,007	-
6	<b>Subtotal - Other Operating Revenues (Company Total equals (FF1 p. 300.26.(b))</b>	2,753,925	2,628,842	125,083
7	Accounts 4470004 & 5, Revenues from Grandfathered Transmission Contracts - (Company Records - Note 1)	-	-	-
8	<b>Total Other Operating Revenues To Reduce Revenue Requirement</b>	2,753,925	2,628,842	125,083

Note 1 The total company data on this worksheet comes from the indicated FF1 source, or KINGSPORT POWER COMPANY's general ledger. The functional amounts identified as transmission revenue also come from the general ledger.

AEP East Companies  
 Cost of Service Formula Rate Using 2010 FF1 Balances  
 Worksheet F Supporting Allocation of Specific O&M or A&G Expenses  
 KINGSPORT POWER COMPANY

<u>Line Number</u>	<u>(A) Item No.</u>	<u>(B) Description</u>	<u>(C) 2010 Expense</u>	<u>(D) 100% Non-Transmission</u>	<u>(E) 100% Transmission Specific</u>	<u>(F) Explanation</u>
<b><u>Regulatory O&amp;M Deferrals &amp; Amortizations</u></b>						
1		No Applicable Charges for KGPCO	-			
2						
3						
4		<b>Total</b>	<u>0</u>			
<b><u>Detail of Account 561 Per FERC Form 1</u></b>						
5	FF1 p 321.84.b	561 - Load Dispatching	0			
6	FF1 p 321.85.b	561.1 - Load Dispatch - Reliability	586			
7	FF1 p 321.86.b	561.2 - Load Dispatch - Monitor & Operate Trans System	45,479			
8	FF1 p 321.87.b	561.3 - Load Dispatch - Trans Service & Scheduling	1			
9	FF1 p 321.88.b	561.4 - Scheduling, System Control & Dispatch	0			
10	FF1 p 321.89.b	561.5 - Reliability, Planning and Standards Development	6,376			
11	FF1 p 321.90.b	561.6 - Transmission Service Studies	0			
12	FF1 p 321.91.b	561.7 - Generation Interconnection Studies	0			
13	FF1 p 321.92.b	561.8 - Reliability, Planning and Standards Development Serv	0			
14		<b>Total of Account 561</b>	<u>52,441</u>			
<b><u>Account 928</u></b>						
15	9280000	Regulatory Commission Exp	(1)	(1)	-	
16	9280001	Regulatory Commission Exp-Adm	0	0	-	
17	9280002	Regulatory Commission Exp-Case	93	93	-	
18	9280002	Regulatory Commission Exp-Case	-	-	-	
19	9280002	Regulatory Commission Exp-Case	-	-	-	
20		<b>Total</b>	<u>93</u>	<u>93</u>	<u>-</u>	
<b><u>Account 930.1</u></b>						
21	9301000	General Advertising Expenses	-	-	-	
22	9301001	Newspaper Advertising Space	6,340	6,340	-	
23	9301002	Radio Station Advertising Time	1,750	1,750	-	
24	9301003	TV Station Advertising Time	-	-	-	
25	9301004	Newspaper Advertising Prod Exp	-	-	-	
26	9301005	Radio &TV Advertising Prod Exp	-	-	-	
27	9301006	Spec Corporate Comm Info Proj	-	-	-	
28	9301007	Special Adv Space & Prod Exp	-	-	-	
29	9301008	Direct Mail and Handouts	-	-	-	
30	9301009	Fairs, Shows, and Exhibits	604	604	-	
31	9301010	Publicity	50	50	-	
32	9301011	Dedications, Tours, & Openings	0	0	-	
33	9301012	Public Opinion Surveys	6,822	6,822	-	
34	9301013	Movies Slide Films & Speeches	-	-	-	
35	9301014	Video Communications	2	2	-	
36	9301015	Other Corporate Comm Exp	3,023	3,023	-	
37		<b>Total</b>	<u>18,591</u>	<u>18,591</u>	<u>-</u>	
<b><u>Account 930.2</u></b>						
38	9302000	Misc General Expenses	-48,819	-48,819		
39	9302003	Corporate & Fiscal Expenses	699	699		
40	9302004	Research, Develop&Demonstr Exp	2,477	2,477		
41	9302005	Nucl Fac Ins - Replce Engy Cst	0	0		
42	9302007	Assoc Business Development Exp	66,126	45,861	20,265	
43		<b>Total</b>	<u>20,483</u>	<u>218</u>	<u>20,265</u>	

AEP East Companies  
 Cost of Service Formula Rate Using 2010 FF1 Balances  
 Worksheet G Supporting - Development of Composite State Income Tax Rate  
 KINGSPORT POWER COMPANY

Tennessee Excise Tax Rate	6.50%	
Apportionment Factor - Note 2	99.99%	
Effective State Tax Rate		6.50%
Total Effective State Income Tax Rate		<u>6.50%</u>

Note 1 The Ohio State Income Tax is being phased-out prorata over a 5 year period from 2005 through 2009. The taxable portion of income is 0% in 2009. The phase-out factors can be found in the Ohio Revised Code at 5733.01(G)2(a)(v). This tax has been replaced with a Commercial Activites Tax that is included in Schedule H and H-1.

Note 2 Apportionment Factors are determined as part of the Company's annual tax return for that jurisdiction.

AEP East Companies  
Cost of Service Formula Rate Using 2010 FFI Balances  
Worksheet H Supporting Taxes Other than Income  
KINGSPORT POWER COMPANY

Line No.	(A) Account	(B) Total Company	(C) Property	(D) Labor	(E) Other	(F) Non-Allocable
		NOTE 1				
1	<b>Revenue Taxes</b>					
2	Gross Receipts Tax	3,617,491				3,617,491
3	<b>Real Estate and Personal Property Taxes</b>					
4	Real and Personal Property - Tennessee	1,035,665	1,035,665			
5	Real and Personal Property - Other	0	-			
6	<b>Payroll Taxes</b>					
7	Federal Insurance Contribution (FICA )	190,944		190,944		
8	Federal Unemployment Tax	2,123		2,123		
9	State Unemployment Insurance	9,864		9,864		
10	<b>Production Taxes</b>					
11	State Severance Taxes	-				-
12	<b>Miscellaneous Taxes</b>					
13	State Business & Occupation Tax	-				-
14	State Public Service Commission Fees	471,208			471,208	
15	State Franchise Taxes	197,997			197,997	
16	State Lic/Registration Fee	1,745			1,745	
17	Misc. State and Local Tax	-			-	
18	Sales & Use	2,037				2,037
19	Federal Excise Tax	-				-
20	Michigan Single Business Tax	-				-
21	Total Taxes by Allocable Basis	<u>5,529,074</u>	<u>1,035,665</u>	<u>202,931</u>	<u>670,950</u>	<u>3,619,528</u>

(Total Company Amount Ties to FFI p.114, Ln 14,(c))

NOTE 1: The detail of each total company number and its source in the FERC Form 1 is shown on WS H-1.

**Functional Property Tax Allocation**

	Production	Transmission	Distribution	General	Total	
22	Functionalized Net Plant (Hist. TCOS, Lns 212 thru 222)	-	9,135,886	65,546,130	1,754,627	76,436,643
<b>TENNESSEE JURISDICTION</b>						
23	Percentage of Plant in TENNESSEE JURISDICTION	100.00%	100.00%	100.00%		
24	Net Plant in TENNESSEE JURISDICTION (Ln 22 * Ln 23)	-	9,135,886	65,546,130	1,754,627	76,436,643
25	Less: Net Value of Exempted Generation Plant	-	-	-	-	
26	Taxable Property Basis (Ln 24 - Ln 25)	-	9,135,886	65,546,130	1,754,627	76,436,643
27	Relative Valuation Factor	100%	100%	100%		3
28	Weighted Net Plant (Ln 26 * Ln 27)	-	9,135,886	65,546,130	1,754,627	
29	General Plant Allocator (Ln 28 / (Total - General Plant))	0.00%	12.23%	87.77%	-100.00%	
30	Functionalized General Plant (Ln 29 * General Plant)	-	214,644	1,539,983	(1,754,627)	-
31	Weighted TENNESSEE JURISDICTION Plant (Ln 28 + 30)	-	9,350,530	67,086,113	0	76,436,643
32	Functional Percentage (Ln 31/Total Ln 31)	0.00%	12.23%	87.77%		
33	Functionalized Expense in TENNESSEE JURISDICTION	-	126,693	908,972		1,035,665
34	Total Other Jurisdictions: (Line 5 * Net Plant Allocator)		-			-
35	Total Func. Property Taxes (Sum Lns 33, 34)	-	126,693	908,972		1,035,665

AEP East Companies  
 Cost of Service Formula Rate Using 2008 FF1 Balances  
 Worksheet H-1 Form 1 Source Reference of Company Amounts on WS H  
 KINGSPORT POWER COMPANY

Line No.	(A) Annual Tax Expenses by Type (Note 1)	(B) Total Company	(C) FERC FORM 1 Tie-Back	(D) FERC FORM 1 Reference
1	<b>Revenue Taxes</b>			
2	Gross Receipts Tax	3,617,491	1,561,895	P.263 ln 34 (i)
			2,055,596	P.263 ln 35 (i)
3	<b>Real Estate and Personal Property Taxes</b>			
4	Real and Personal Property - Tennessee	1,035,665	-162,935	P.263 ln 19 (i)
			1,198,600	P.263 ln 20 (i)
5	Real and Personal Property - Other	-	-	
6	<b>Payroll Taxes</b>			
7	Federal Insurance Contribution (FICA )	190,944	190,944	P.263 ln 5 (i)
8	Federal Unemployment Tax	2,123	2,123	P.263 ln 6 (i)
9	State Unemployment Insurance	9,864	9,864	P.263 ln 31 (i)
10	<b>Production Taxes</b>			
11	State Severance Taxes	-	-	
12	<b>Miscellaneous Taxes</b>			
13	State Business & Occupation Tax	-	-	
14	State Public Service Commission Fees	471,208	471,208	P.263.1 ln 3 (i)
15	State Franchise Taxes	197,997	(2,003)	P.263 ln 27 (i)
			200,000	P.263 ln 28 (i)
				P.263.1 ln 16 (i)
16	State Lic/Registration Fee	1,745	1,700	P.263.1 ln 13 (i)
			45	P.263.1 ln 19 (i)
17	Misc. State and Local Tax	-	-	
18	Sales & Use	2,037	342	P.263 ln 14 (i)
			1,695	P.263 ln 15 (i)
19	Federal Excise Tax	-	-	
20	Michigan Single Business Tax	-	-	
21	Total Taxes by Allocable Basis (Total Company Amount Ties to FFI p.114, Ln 14,(c))	5,529,074	5,529,074	

Note 1: The taxes assessed on each operating company can differ from year to year and between operating companies by both the type of taxes and the states in which they were assessed. Therefore, for each company, the types and jurisdictions of tax expense recorded on this page could differ from the same page in the same company's prior year template or from this page in other operating companies' current year templates. For each update, this sheet will be revised to ensure that the total activity recorded hereon equals the total reported in account 408.1 on P. 114, Ln 14 of the Ferc Form 1.

**AEP East Companies**  
**Cost of Service Formula Rate Using 2010 FF1 Balances**  
**Worksheet I Supporting Transmission Plant in Service Additions**  
**KINGSPORT POWER COMPANY**

(A) (B) (C) (D) (E) (F) (G) (H) (I)

**I. Calculation of Composite Depreciation Rate**

1	Transmission Plant @ Beginning of Historic Period (2010) (P.206, ln 58,(b)):	17,532,350
2	Transmission Plant @ End of Historic Period (2010) (P.207, ln 58,(g)):	19,006,058
3		36,538,408
4	Average Balance of Transmission Investment	18,269,204
5	Annual Depreciation Expense, Historic TCOS, ln 276	476,751
6	Composite Depreciation Rate	2.61%
7	Round to 2.61% to Reflect a Composite Life of 38 Years	2.61%

**II. Calculation of Property Placed in Service by Month and the Related Depreciation Expense**

8	Month in Service	Capitalized Balance	Composite Annual Depreciation Rate	Annual Depreciation	Monthly Depreciation	No. Months Depreciation	First Year Depreciation Expense
9	January	\$ 92,433	2.61%	\$ 2,413	\$ 201	11	\$ 2,211
10	February	\$ 95,753	2.61%	\$ 2,499	\$ 208	10	\$ 2,080
11	March	\$ 96,300	2.61%	\$ 2,513	\$ 209	9	\$ 1,881
12	April	\$ 94,629	2.61%	\$ 2,470	\$ 206	8	\$ 1,648
13	May	\$ 93,142	2.61%	\$ 2,431	\$ 203	7	\$ 1,421
14	June	\$ 95,772	2.61%	\$ 2,500	\$ 208	6	\$ 1,248
15	July	\$ 84,742	2.61%	\$ 2,212	\$ 184	5	\$ 920
16	August	\$ 44,727	2.61%	\$ 1,167	\$ 97	4	\$ 388
17	September	\$ 38,341	2.61%	\$ 1,001	\$ 83	3	\$ 249
18	October	\$ 37,541	2.61%	\$ 980	\$ 82	2	\$ 164
19	November	\$ 37,360	2.61%	\$ 975	\$ 81	1	\$ 81
20	December	\$ 1,206,688	2.61%	\$ 31,495	\$ 2,625	0	\$ -
21	Investment	\$ 2,017,427				Depreciation Expense	\$ 12,291

**III. Plant Transferred**

22	\$ -	<== This input area is for original cost plant
23	\$ -	<== This input area is for accumulated depreciation that may be associated with capital expenditures. It would have an impact if a company had assets transferred from a subsidiary.
24 (Ln 7 * Ln 22)	\$ -	<== This input area is for additional Depreciation Expense

**IV. List of Major Projects Expected to be In-Service in 2010**

	<u>Estimated Cost</u> <u>(000's)</u>	<u>Month in</u> <u>Service</u>
25 <u>Major Zonal Projects</u>		
26 N/A	\$0	Multiple
27	Subtotal \$0	
28 <u>PJM Socialized/Beneficiary Allocated Regional Projects</u>		
29 N/A	\$0	
30	Subtotal \$0	

AEP East Companies  
 Cost of Service Formula Rate Using 2010 FF1 Balances  
 Worksheet J Supporting Calculation of PROJECTED PJM RTEP Project Revenue Requirement Billed to Benefiting Zones  
 KINGSPORT POWER COMPANY

**I. Calculate Return and Income Taxes with basis point ROE increase for Projects Qualified for Regional Billing.**

**A. Determine 'R' with hypothetical basis point increase in ROE for Identified Projects**

ROE w/o incentives (Projected TCOS, In 164)			11.49%
Project ROE Incentive Adder			<==ROE Adder Cannot Exceed 125 Basis Points
ROE with additional basis point incentive			11.49% <== ROE Including Incentives Cannot Exceed 12.74% Until July 1, 2012
Determine R (cost of long term debt, cost of preferred stock and equity percentage is from the Projected TCOS, Ins 162 through 164)			
	%	Cost	Weighted cost
Long Term Debt	42.05%	4.52%	1.901%
Preferred Stock	0.00%	0.00%	0.000%
Common Stock	57.95%	11.49%	6.659%
		R =	8.559%

SUMMARY OF PROJECTED ANNUAL RTEP REVENUE REQUIREMENTS			
	Rev Require	W Incentives	Incentive Amounts
PROJECTED YEAR	2011	-	\$ -

**B. Determine Return using 'R' with hypothetical basis point ROE increase for Identified Projects.**

Rate Base (Projected TCOS, In 78)	9,338,032
R (from A. above)	8.559%
Return (Rate Base x R)	799,273

**C. Determine Income Taxes using Return with hypothetical basis point ROE increase for Identified Projects.**

Return (from B. above)	799,273
Effective Tax Rate (Projected TCOS, In 126)	50.21%
Income Tax Calculation (Return x CIT)	401,319
ITC Adjustment	-
Income Taxes	401,319

**II. Calculate Net Plant Carrying Charge Rate (Fixed Charge Rate or FCR) with hypothetical basis point ROE increase.**

**A. Determine Annual Revenue Requirement less return and Income Taxes.**

Annual Revenue Requirement (Projected TCOS, In 1)	2,670,047
T.E.A. & Lease Payments (Projected TCOS, Lns 105 & 106)	-
Return (Projected TCOS, In 134)	799,273
Income Taxes (Projected TCOS, In 133)	401,319
Annual Revenue Requirement, Less TEA Charges, Return and Taxes	1,469,456

**B. Determine Annual Revenue Requirement with hypothetical basis point increase in ROE.**

Annual Revenue Requirement, Less TEA Charges, Return and Taxes	1,469,456
Return (from I.B. above)	799,273
Income Taxes (from I.C. above)	401,319
Annual Revenue Requirement, with Basis Point ROE increase	2,670,047
Depreciation (Projected TCOS, In 111)	476,751
Annual Rev. Req, w/ Basis Point ROE increase, less Depreciation	2,193,296

**C. Determine FCR with hypothetical basis point ROE increase.**

Net Transmission Plant (Projected TCOS, In 48)	9,135,886
Annual Revenue Requirement, with Basis Point ROE increase	2,670,047
FCR with Basis Point increase in ROE	29.23%
Annual Rev. Req, w / Basis Point ROE increase, less Dep.	2,193,296
FCR with Basis Point ROE increase, less Depreciation	24.01%
FCR less Depreciation (Projected TCOS, In 9)	20.45%
Incremental FCR with Basis Point ROE increase, less Depreciation	3.56%

**III. Calculation of Composite Depreciation Rate**

Transmission Plant @ Beginning of Historic Period (2010) (P.206, In 58,(b)):	17,532,350
Transmission Plant @ End of Historic Period (2010) (P.207, In 58,(g)):	19,006,058
Subtotal	36,538,408
Average Transmission Plant Balance for 2010	18,269,204
Annual Depreciation Rate (Projected TCOS, In 111)	476,751
Composite Depreciation Rate	2.61%
Depreciable Life for Composite Depreciation Rate	38.32
Round to nearest whole year	38



AEP East Companies  
 Cost of Service Formula Rate Using 2010 FF1 Balances  
 Worksheet K Supporting Calculation of TRUE-UP PJM RTEP Project Revenue Requirement Billed to Benefiting Zones  
 KINGSPORT POWER COMPANY

**I. Calculate Return and Income Taxes with 0 basis point ROE increase for Projects Qualified for Regional Billing.**

**A. Determine 'R' with hypothetical 0 basis point increase in ROE for Identified Projects**

ROE w/o incentives (True-Up TCOS, In 164)			11.49%
Project ROE Incentive Adder		0	<=ROE Adder Cannot Exceed 100 Basis Points
ROE with additional 0 basis point incentive			11.49% <= ROE Including Incentives Cannot Exceed 12.5% Until July 1, 2012
Determine R (cost of long term debt, cost of preferred stock and equity percentage is from the True-Up TCOS, Ins 162 through 164)			
	%	Cost	Weighted cost
Long Term Debt	45.00%	2.25%	1.012%
Preferred Stock	0.00%	0.00%	0.000%
Common Stock	55.00%	11.49%	6.320%
		R =	7.332%

SUMMARY OF TRUED-UP ANNUAL REVENUE REQUIREMENTS FOR RTEPPROJECTS			
TRUE-UP YEAR	2010	Rev Require	Incentive Amounts
As Projected in Prior Year WS J			\$ -
Actual after True-up	\$ -	\$ -	\$ -
True-up of ARR For 2010	-	-	-

**B. Determine Return using 'R' with hypothetical 0 basis point ROE increase for Identified Projects.**

Rate Base (True-Up TCOS, In 78)	7,263,522
R (from A. above)	7.332%
Return (Rate Base x R)	532,578

**C. Determine Income Taxes using Return with hypothetical 0 basis point ROE increase for Identified Projects.**

Return (from B. above)	532,578
Effective Tax Rate (True-Up TCOS, In 126)	55.63%
Income Tax Calculation (Return x CIT)	296,275
ITC Adjustment	-
Income Taxes	296,275

**II. Calculate Net Plant Carrying Charge Rate (Fixed Charge Rate or FCR) with hypothetical 0 basis point ROE increase.**

**A. Determine Annual Revenue Requirement less return and Income Taxes.**

Annual Revenue Requirement (True-Up TCOS, In 1)	2,284,070
T.E.A. & Lease Payments (True-Up TCOS, Lns 105 & 106)	-
Return (True-Up TCOS, In 134)	532,578
Income Taxes (True-Up TCOS, In 133)	296,275
Annual Revenue Requirement, Less TEA Charges, Return and Taxes	1,455,216

**B. Determine Annual Revenue Requirement with hypothetical 0 basis point increase in ROE.**

Annual Revenue Requirement, Less TEA Charges, Return and Taxes	1,455,216
Return (from I.B. above)	532,578
Income Taxes (from I.C. above)	296,275
Annual Revenue Requirement, with 0 Basis Point ROE increase	2,284,070
Depreciation (True-Up TCOS, In 111)	476,751
Annual Rev. Req. w/ 0 Basis Point ROE increase, less Depreciation	1,807,319

**C. Determine FCR with hypothetical 0 basis point ROE increase.**

Net Transmission Plant (True-Up TCOS, In 48)	8,479,650
Annual Revenue Requirement, with 0 Basis Point ROE increase	2,284,070
FCR with 0 Basis Point increase in ROE	26.94%
Annual Rev. Req. w / 0 Basis Point ROE increase, less Dep.	1,807,319
FCR with 0 Basis Point ROE increase, less Depreciation	21.31%
FCR less Depreciation (True-Up TCOS, In 9)	21.31%
Incremental FCR with 0 Basis Point ROE increase, less Depreciation	0.00%

**III. Calculation of Composite Depreciation Rate**

Transmission Plant @ Beginning of Historic Period (P.206, In 58.(b)):	17,532,350
Transmission Plant @ End of Historic Period (P.207, In 58.(g)):	19,006,058
Subtotal	36,538,408
Average Transmission Plant Balance for	18,269,204
Annual Depreciation Rate (True-Up TCOS, In 111)	476,751
Composite Depreciation Rate	2.61%
Depreciable Life for Composite Depreciation Rate	38.32
Round to nearest whole year	38



AEP East Companies  
 Cost of Service Formula Rate Using 2010 FF1 Balances  
 Worksheet L Supporting Projected Cost of Debt  
 KINGSPORT POWER COMPANY

**Calculation of Projected Interest Expense Based on Outstanding Debt at Year End**

<u>Line Number</u>	<u>(A) Issuance</u>	<u>(B) Principle Outstanding</u>	<u>(C) Interest Rate</u>	<u>(D) Annual Expense (See Note S on Projected Template)</u>	<u>(E) Notes</u>
1	<b><u>Long Term Debt (FF1.p. 256-257.h)</u></b>				
2	Advances From Associated Co.	20,000,000	4.520%	904,000	
3					
4	<b><u>Installment Purchase Contracts (FF1.p. 256-257.h, a)</u></b>				
5	N/A for Kingsport Power Company				
6				-	
7				-	
8				-	
9				-	
10				-	
11				-	
12				-	
13				-	
14				-	
15				-	
16				-	
17				-	
18				-	
19				-	
20				-	
21				-	
22				-	
23				-	
24				-	
25				-	
26			0.000%		
27	<b><u>Issuance Discount, Premium, &amp; Expenses:</u></b>				
28	Auction Fees	FF1.p. 256 & 257.Lines Described as Fees		-	
29	Allowable Hedge Amortization (See Ln 45 Below)			-	
30	Amort of Debt Discount and Expenses	FF1.p. 117.63.c		-	
31	Amort of Debt Premiums (Enter Negative)	FF1.p. 117.65.c		-	
32	<b><u>Reacquired Debt:</u></b>				
33	Amortization of Loss	FF1.p. 117.64.c		-	
34	Amortization of Gain	FF1.p. 117.66.c		-	
35	<b>Total Interest on Long Term Debt</b>	20,000,000	4.52%	904,000	
36	<b><u>Preferred Stock (FF1.p. 250-251)</u></b>				
37	4.125% Series - \$100 - Shares O/S	-	0.00%	-	
38				-	
39				-	
40	<b>Dividends on Preferred Stock</b>	-	0.00%	-	
41	Net Total Hedge Gains and Losses (WS M, Ln 35, (E))				
42	Total Projected Capital Structure Balance for 2011 (Projected TCOS, Ln 165)				-
43	Financial Hedge Recovery Limit - Five Basis Points of Total Capital				47,565,836
44	Limit of Recoverable Amount				0.0005
44					23,783
45	<b>Recoverable Hedge Amortization (Lesser of Ln 41 or Ln 44)</b>				-

AEP East Companies  
 Transmission Cost of Service Formula Rate  
 KINGSPORT POWER COMPANY

**Worksheet M Supporting Calculation of Capital Structure and Weighted Average Cost of Capital Based on Average of Balances At 12/31/2009 & 12/31/2010**

(A)	(B)	(C)	(D)	(E)
Line		Balances @ 12/31/2010	Balances @ 12/31/2009	Average
<b>Development of Average Balance of Common Equity</b>				
1	Proprietary Capital (112.16.c&d)	27,572,018	21,335,470	24,453,744
2	Less Preferred Stock (Ln 55 Below)	0	0	-
3	Less Account 216.1 (112.12.c&d)	0	0	0
4	Less Account 219.1 (112.15.c&d)	6,182	5,560	5,871
5	<b>Average Balance of Common Equity</b>	<b>27,565,836</b>	<b>21,329,910</b>	<b>24,447,873</b>

**Development of Cost of Long Term Debt Based on Average Outstanding Balance**

6	Bonds (112.18.c&d)	0	0	0
7	Less: Reacquired Bonds (112.19.c&d)	0	0	0
8	LT Advances from Assoc. Companies (112.20.c&d)	20,000,000	20,000,000	20,000,000
9	Senior Unsecured Notes (112.21.c&d)	0	0	0
10	Less: Fair Value Hedges (See Note on Ln 12 below)	0	0	0
11	<b>Total Average Debt</b>	<b>20,000,000</b>	<b>20,000,000</b>	<b>20,000,000</b>

12 **NOTE: The balance of fair value hedges on outstanding long term debt are to be excluded from the balance of long term debt included in the formula's capital structure. (Column H of the FF1)**

**13 Annual Interest Expense for 2010**

14	Interest on Long Term Debt (256-257.33.i)			449,958
15	Less: Total Hedge Gain/Expense Accumulated from p 256-257, col. (i) of FERC Form 1 included in Ln 14 and shown in Ln 34 below.			-
16	Plus: Allowed Hedge Recovery From Ln 39 below.			-
17	Amort of Debt Discount & Expense (117.63.c)			-
18	Amort of Loss on Reacquired Debt (117.64.c)			-
19	Less: Amort of Premium on Debt (117.65.c)			-
20	Less: Amort of Gain on Reacquired Debt (117.66.c)			-
21	<b>Total Interest Expense (Ln 14 + Ln 17 + Ln 18 - Ln 19 - Ln 20)</b>			<b>449,958</b>
22	<b>Average Cost of Debt for 2010 (Ln 21/Ln 11)</b>			<b>2.25%</b>

**CALCULATION OF RECOVERABLE HEDGE GAINS/LOSSES**

23 **NOTE: The net amount of hedging gains or losses recorded in account 427 to be recovered in this formula rate should be limited to the effective portion of pre-issuance cash flow hedges that are amortized over the life of the underlying debt issuances. The recovery of a net loss or passback of a net gain will be limited to five basis points of the total Capital Structure. Amounts related to the ineffective portion of pre-issuance hedges, cash settlements of fair value hedges issued on Long Term Debt, post-issuance cash flow hedges, and cash flow hedges of variable rate debt issuances are not recoverable in this formula and are to be recorded in the "Excludable" column below.**

HEDGE AMOUNTS BY ISSUANCE (FROM p. 256-257 (i) of the FERC Form 1)	Total Hedge (Gain)/Loss for 2010	Less Excludable Amounts (See NOTE on Line 23)	Net Includable Hedge Amount	Amortization Period		
				Remaining Unamortized Balance	Beginning	Ending
24 Senior Unsecured Notes	0	-	-			
25 Senior Unsecured Notes	0	-	-			
26 Senior Unsecured Notes	0	-	-			
27 Senior Unsecured Notes	0	-	-			
28 Senior Unsecured Notes	0	-	-			
29 Senior Unsecured Notes	0	-	-			
30 Senior Unsecured Notes	0	-	-			
31 Senior Unsecured Notes	0	-	-			
32 Senior Unsecured Notes	0	-	-			
33 Senior Unsecured Notes	0	-	-			
34 Total Hedge Amortization	-	-	-			
35 Hedge Gain or Loss Prior to Application of Recovery Limit (Sum of Lines 24 to 33)			-			
36 Total Average Capital Structure Balance for 2010 (True-UP TCOS, Ln 165)			44,447,873			
37 Financial Hedge Recovery Limit - Five Basis Points of Total Capital			0.0005			
38 Limit of Recoverable Amount			22,224			
39 Recoverable Hedge Amortization (Lesser of Ln 35 or Ln 38)			-			

**Development of Cost of Preferred Stock**

Preferred Stock			Average
40 0% Series - 0 - Dividend Rate (p. 250-251. 7 & 10.a)	0.00%	0.00%	
41 0% Series - 0 - Par Value (p. 250-251. 8.c)	\$ -	\$ -	
42 0% Series - 0 - Shares O/S (p.250-251. 8 & 11.e)	-	-	
43 0% Series - 0 - Monetary Value (Ln 41 * Ln 42)	-	-	
44 0% Series - 0 - Dividend Amount (Ln 40 * Ln 43)	-	-	
45 0% Series - - Dividend Rate (p. 250-251.a)			
46 0% Series - - Par Value (p. 250-251.c)			
47 0% Series - - Shares O/S (p.250-251. e)			
48 0% Series - - Monetary Value (Ln 46 * Ln 47)			
49 0% Series - - Dividend Amount (Ln 45 * Ln 48)			
50 0% Series - - Dividend Rate (p. 250-251.a)			
51 0% Series - - Par Value (p. 250-251.c)			
52 0% Series - - Shares O/S (p.250-251.e)			
53 0% Series - - Monetary Value (Ln 51 * Ln 52)			
54 0% Series - - Dividend Amount (Ln 50 * Ln 53)			
55 Balance of Preferred Stock (Lns 43, 48, 53)	-	-	-
56 Dividends on Preferred Stock (Lns 44, 49, 54)	-	-	-
57 Average Cost of Preferred Stock (Ln 56/55)	0.00%	0.00%	

- Year End Total Agrees to FF1 p.112, Ln 3, col (c) & (d)

**AEP East Companies**  
**Cost of Service Formula Rate Using 2010 FF1 Balances**  
**Worksheet N - Gains (Losses) on Sales of Plant Held For Future Use**  
**KINGSPORT POWER COMPANY**

Note: Gain or loss on plant held for future are recorded in accounts 411.6 or 411.7 respectively. Sales will be funtionalized based on the description of that asset. Sales of transmission assets will be direct assigned; sales of general assets will be functionalized on labor. Sales of plant held for future use related to generation or distribution will not be included in the formula.

Line	(A) Date	(B) Property Description	(C) Function (T) or (G) T = Transmission G = General	(D) Basis	(E) Proceeds	(F) (Gain) / Loss	(G) Functional Allocator	(H) Functionalized Proceeds (Gain) / Loss	(I) FERC Account
1						-	0.000%	-	
2						-	0.000%	-	
3						-	0.000%	-	
4						<u>-</u>		<u>-</u>	

Net (Gain) or Loss for 2010

AEP East Companies

**Cost of Service Formula Rate Using 2010 FF1 Balances**

Worksheet O - Calculation of Postemployment Benefits Other than Pensions Expenses Allocable to Transmission Service  
KINGSPORT POWER COMPANY

Total AEP East Operating Company PBOP Settlement Amount **48,100,000**

**Allocation of PBOP Settlement Amount for 2010**

Line#	Company	Total Company Amount						
		Actual Expense (Including AEPSC Billed OPEB)	Ratio of Company Actual to Total	Allocation of PBOP Recovery Allowance	Labor Allocator for 2010	Actual Expense	Allowable Expense	One Year Functional Expense (Over)/Under
		(A) (Line 14)	(B)=(A)/Total (A)	(C)=(B) * 48100000	(D)	(E)=(A) * (D)	(F)=(C) * (D)	(G)=(E) - (F)
1	APCo	13,207,032	26.27%	12,637,155	7.489%	989,110	946,430	42,680
2	CSP	7,759,634	15.44%	7,424,809	5.961%	462,523	442,566	19,958
3	I&M	13,602,157	27.06%	13,015,230	5.208%	708,440	677,872	30,569
4	KPCo	2,592,156	5.16%	2,480,306	9.956%	258,065	246,930	11,135
5	KNGP	386,298	0.77%	369,629	8.357%	32,284	30,891	1,393
6	OPCo	12,241,700	24.35%	11,713,476	9.182%	1,123,972	1,075,473	48,499
7	WPCo	480,113	0.96%	459,397	5.436%	26,101	24,975	1,126
8	<b>Sum of Lines 1 to 7</b>	<b>50,269,090</b>		<b>48,100,000</b>		<b>3,600,497</b>	<b>3,445,137</b>	<b>155,360</b>

**Detail of Actual PBOP Expenses to be Removed in Cost of Service**

	<u>APCo</u>	<u>CSP</u>	<u>I&amp;M</u>	<u>KPCo</u>	<u>KNGSPT</u>	<u>OPCo</u>	<u>WPCo</u>	<u>AEP East Total</u>
9 Direct Charged PBOP Expense per Actuarial Report	20,529,721	9,778,864	16,755,046	3,346,838	482,787	16,248,955	616,268	67,758,479
10 Additional PBOP Ledger Entries (from Company Records)	(2,695,814)	-	534,099	(1)	1	(443,953)	1	
11 Medicare Subsidy	(5,735,375)	(2,596,761)	(4,476,103)	(954,918)	(128,004)	(4,530,395)	(163,291)	(18,584,847)
12 Net Company Expense (Ln 9 + Ln 10 + Ln 11)	12,098,532	7,182,103	12,813,042	2,391,919	354,784	11,274,607	452,978	46,567,965
13 PBOP Expenses From AEP Service Corporation (from Company Records)	1,108,500	577,531	789,115	200,237	31,514	967,093	27,135	3,701,125
14 Company PBOP Expense (Ln 12 + Ln 13)	13,207,032	7,759,634	13,602,157	2,592,156	386,298	12,241,700	480,113	50,269,090

AEP EAST COMPANIES  
**PJM FORMULA RATE**  
 WORKSHEET P - TRANSMISSION DEPRECIATION RATES  
 EFFECTIVE AS OF 1/1/2009  
 FOR SINGLE JURISDICTION COMPANIES  
 KINGSPORT POWER COMPANY

	<b>PLANT ACCT.</b>	<b>RATES</b> Note 1
<hr/> <b><i>TRANSMISSION PLANT</i></b> <hr/>		
Structures & Improvements	352.0	2.10%
Station Equipment	353.0	2.57%
Towers & Fixtures	354.0	1.91%
Poles & Fixtures	355.0	4.20%
Overhead Conductors	356.0	2.50%
Underground Conduit	357.0	Note 2
Underground Conductors	358.0	Note 2
<b>Composite Transmission Depreciation Rate</b>		<b>2.59%</b>

Reference:

Note 1: Rates Approved In Tennessee Regulatory Authority Case No. U-84-7308.

Note 2: Kingsport Power Company does not have investment in plant accounts 357 or 358. Therefore, there are no depreciation rates approved for these plant accounts.

**General Note**

Per the terms of the settlement in this case, AEP will make a 205 filing whenever a company's rates are changed by their commission(s), or if the methodology to calculate the jurisdictional allocator in multiple-state companies changes. Changes in the allocation factors will not necessitate a 205 filing.