

AEP East Companies  
Transmission Cost of Service Formula Rate  
Utilizing Historic Cost Data for 2008 and Projected Net Plant at Year-End 2009

**KINGSPORT POWER COMPANY**

Line No.					Transmission Amount
1	REVENUE REQUIREMENT (w/o incentives)	(In 137)			\$2,558,237
2	REVENUE CREDITS	(Note A) (Worksheet E)	<u>Total</u>	<u>Allocator</u>	
			76,961	DA 1.00000	\$ 76,961
3	REVENUE REQUIREMENT For All KgPCo Facilities	(In 1 less In 2)			<u>\$ 2,481,276</u>
<b>MEMO: The Carrying Charge Calculations on lines 5 to 11 below is used in calculating project revenue requirements billed on PJM Schedule 12. The total non-incentive revenue requirements for these projects shown on line 4 is included in the total on line 3.</b>					
4	Revenue Requirement for PJM RTEP Regional Facilities (w/o incentives) (Worksheet J)		-	DA 1.00000	\$ -
5	NET PLANT CARRYING CHARGE W/O AFFILIATED LEASE PAYMENTS & T.E.A. ADJUSTMENT ADDBACK (w/o incentives) (Note B)				
6	Annual Rate	((In 1 - In 106 - In 107) / In 48 x 100)			31.34%
7	Monthly Rate	(In 6 / 12)			2.61%
8	NET PLANT CARRYING CHARGE ON LINE 6, W/O DEPRECIATION (w/o incentives) (Note B)				
9	Annual Rate	((In 1 - In 106 - In 107 - In 112) / In 48 x 100)			26.00%
10	NET PLANT CARRYING CHARGE ON LINE 8, W/O INCOME TAXES, RETURN (Note B)				
11	Annual Rate	((In 1 - In 106 - In 107 - In 112 - In 134 - In 135) / In 48 x 100)			12.62%
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 86 Below			46,135
15	Less: Load Disptach - Scheduling, System Control and Dispatch Services (321.88.b)				-
16	Less: Load Disptach - Reliability, Planning & Standards Development Services (321.92.b)				-
17	Total 561 Internally Developed Costs	(Line 14 - Line 15 - Line 16)			<u>46,135</u>

AEP East Companies  
Transmission Cost of Service Formula Rate  
Utilizing Historic Cost Data for 2008 and Projected Net Plant at Year-End 2009

KINGSPORT POWER COMPANY

Line No.	(1)	(2)	(3)	(4)	(5)
	<u>RATE BASE CALCULATION</u>	<u>Data Sources</u> <u>(See "General Notes")</u>	<u>TO Total</u> <u>NOTE C</u>	<u>Allocator</u>	<u>Total</u> <u>Transmission</u>
18	GROSS PLANT IN SERVICE				
18	Production	(Worksheet A In 1.C)	-	NA 0.00000	-
19	Less: Production ARO (Enter Negative)	(Worksheet A In 2.C)	-	NA 0.00000	-
20	Transmission	(Worksheet A In 3.C & Ln 141)	17,421,868	DA	17,421,868
21	Less: Transmission ARO (Enter Negative)	(Worksheet A In 4.C)	-	TP 1.00000	-
22	Plus: Transmission Plant-in-Service Additions (Worksheet I)		1,277,853	TP 1.00000	1,277,853
23	Plus: Additional Trans Plant on Transferred Assets (Worksheet I)		-	TP 1.00000	-
24	Distribution	(Worksheet A In 5.C)	96,617,889	NA 0.00000	-
25	Less: Distribution ARO (Enter Negative)	(Worksheet A In 6.C)	-	NA 0.00000	-
26	General Plant	(Worksheet A In 7.C.)	2,249,505	W/S 0.11177	251,418
27	Less: General Plant ARO (Enter Negative)	(Worksheet A In 8.C)	-	W/S 0.11177	-
28	Intangible Plant	(Worksheet A In 9.C)	2,091,017	W/S 0.11177	233,704
29	TOTAL GROSS PLANT	(sum Ins 18 to 28)	119,658,132		19,184,844
30	ACCUMULATED DEPRECIATION AND AMORTIZATION				
31	Production	(Worksheet A In 12.C)	-	NA 0.00000	-
32	Less: Production ARO (Enter Negative)	(Worksheet A In 13.C)	-	NA 0.00000	-
33	Transmission	(Worksheet A In 14.C & 28.C)	9,259,738	TP1= 1.00000	9,259,738
34	Less: Transmission ARO (Enter Negative)	(Worksheet A In 15.C)	-	TP1= 1.00000	-
35	Plus: Transmission Plant-in-Service Additions (Worksheet I)		11,785	DA 1.00000	11,785
36	Plus: Additional Projected Deprec on Transferred Assets (Worksheet I)		-	DA 1.00000	-
37	Plus: Additional Transmission Depreciation for 2009 (In 112)		435,749	TP1 1.00000	435,749
38	Plus: Additional General & Intangible Depreciation for 2009 (In 114 + In 115)		431,806	W/S 0.11177	48,261
39	Plus: Additional Accum Deprec on Transferred Assets (Worksheet I)		-	DA 1.00000	-
40	Distribution	(Worksheet A In 16.C)	34,413,666	NA 0.00000	-
41	Less: Distribution ARO (Enter Negative)	(Worksheet A In 17.C)	-	NA 0.00000	-
42	General Plant	(Worksheet A In 18.C)	597,762	W/S 0.11177	66,809
43	Less: General Plant ARO (Enter Negative)	(Worksheet A In 19.C)	-	W/S 0.11177	-
44	Intangible Plant	(Worksheet A In 20.C)	2,067,337	W/S 0.11177	231,058
45	TOTAL ACCUMULATED DEPRECIATION	(sum Ins 31 to 44)	47,217,843		10,053,401
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)	8,162,130		8,162,130
49	Plus: Transmission Plant-in-Service Additions (In 22 - In 35)		1,266,068		1,266,068
50	Plus: Additional Trans Plant on Transferred Assets (In 23 - In 36)		-		-
51	Plus: Additional Transmission Depreciation for 2009 (-In 37)		(435,749)		(435,749)
52	Plus: Additional General & Intangible Depreciation for 2009 (-In 38)		(431,806)		(48,261)
53	Plus: Additional Accum Deprec on Transferred Assets (Worksheet I) (-In 39)		-		-
54	Distribution	(In 24 + In 25 - In 40 - In 41)	62,204,223		-
55	General Plant	(In 26 + In 27 - In 42 - In 43)	1,651,743		184,609
56	Intangible Plant	(In 28 - In 44)	23,680		2,647
57	TOTAL NET PLANT IN SERVICE	(sum Ins 47 to 56)	72,440,289		9,131,443
58	DEFERRED TAX ADJUSTMENTS TO RATE BASE	(Note D)			
59	Account No. 281.1 (enter negative)	(Worksheet B, In 2 & In 5.C)	-	NA	-
60	Account No. 282.1 (enter negative)	(Worksheet B, In 7 & In 10.C)	(10,454,510)	DA	(1,648,135)
61	Account No. 283.1 (enter negative)	(Worksheet B, In 12 & In 15.C)	(1,370,255)	DA	(179,327)
62	Account No. 190.1	(Worksheet B, In 17 & In 20.C)	1,087,635	DA	110,457
63	Account No. 255 (enter negative)	(Worksheet B, In 24 & In 25.C)	(265,210)	DA	(56,446)
64	TOTAL ADJUSTMENTS	(sum Ins 59 to 63)	(11,002,340)		(1,773,451)
65	PLANT HELD FOR FUTURE USE	(Worksheet A In 29 & In 30)	34,829	DA	-
66	CONSTRUCTION WORK IN PROGRESS	(Worksheet A In 31.C)	-	TP 1.00000	-
67	REGULATORY ASSETS	(Worksheet A In 36. (C))	-	DA	-
68	WORKING CAPITAL	(Note E)			
69	Cash Working Capital	(1/8 * In 105)	344,697		95,510
70	Transmission Materials & Supplies	(Worksheet C, In 2.(D))	1,363	TP 1.00000	1,363
71	A&G Materials & Supplies	(Worksheet C, In 3.(D))	1,255	W/S 0.11177	140
72	Stores Expense	(Worksheet C, In 4.(D))	-	GP(h) 0.15127	-
73	Prepayments (Account 165) - Labor Allocated	(Worksheet C, In 6.G)	4,195,477	W/S 0.11177	468,911
74	Prepayments (Account 165) - Gross Plant	(Worksheet C, In 6.F)	1,303,851	GP(h) 0.15127	197,229
75	Prepayments (Account 165) - Transmission Only	(Worksheet C, In 6.E)	-	DA 1.00000	-
76	Prepayments (Account 165) - Unallocable	(Worksheet C, In 6.D)	(4,153,628)	NA 0.00000	-
77	TOTAL WORKING CAPITAL	(sum Ins 69 to 76)	1,693,015		763,154
78	IPP CONTRIBUTIONS FOR CONSTRUCTION	(Note F) (Worksheet D, In 8.(B))	-	DA 1.00000	-
79	RATE BASE (sum Ins 57, 64, 65, 77, 78)		63,165,793		8,121,146

AEP East Companies  
Transmission Cost of Service Formula Rate  
Utilizing Historic Cost Data for 2008 and Projected Net Plant at Year-End 2009

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
80	OPERATION & MAINTENANCE EXPENSE				
81	Production	321.80.b	92,230,150		
82	Distribution	322.156.b	4,440,967		
83	Customer Related Expense	322 & 323.164,171,178.b	1,948,269		
84	Regional Marketing Expenses	322.131.b	-		
85	Transmission	321.112.b	543,613		
86	TOTAL O&M EXPENSES	(sum Ins 80 to 84)	99,162,999		
87	Less: Total Account 561	(Note G) 321.84-92.b	46,135		
88	Less: Account 565	(Note H) 321.96.b	-		
89	Less: Regulatory Deferrals & Amortizations	(Note J) (Worksheet F, In 4)	-		
90	Total O&M Allocable to Transmission	(Ins 84 - 86 - 87 - 88)	497,478	TP 1.00000	497,478
91	Administrative and General	323.197.b (Note K)	2,398,976		
92	Less: Acct. 924, Property Insurance	323.185.b	15,748		
93	Acct. 928, Reg. Com. Exp.	323.189.b	237		
94	Acct. 930.1, Gen. Advert. Exp.	323.191.b	38,870		
95	Acct. 930.2, Misc. Gen. Exp.	323.192.b	176,297		
96	Balance of A & G	(In 90 - sum In 91 to In 94)	2,167,824	W/S 0.11177	242,289
97	Plus: Acct. 924, Property Insurance	(In 91)	15,748	GP(h) 0.15127	2,382
98	Acct. 928 - Transmission Specific	Worksheet F In 19.(E) (Note L)	-	TP 1.00000	-
99	Acct. 928 - Transmission Allocated	Worksheet F In 19.(F) (Note L)	-	GP(h) 0.15127	-
100	Acct 930.1 - Only safety related ads -Direct	Worksheet F In 35.(E) (Note L)	-	DA 1.00000	-
101	Acct 930.1 - Only safety related ads - Allocated	Worksheet F In 35.(F) (Note L)	-	GP(h) 0.15127	-
102	Acct 930.2 - Misc Gen. Exp. - Trans	Worksheet F In 41.(E) (Note L)	15,060	DA 1.00000	15,060
103	Acct 930.2 - Misc Gen. Exp. - Allocated	Worksheet F In 41.(F) (Note L)	35,591	W/S 0.11177	3,978
104	Less: PBOP Expense In Acct. 926 Adjustment	Worksheet F In 12.(C) (Note L)	(25,872)	W/S 0.11177	(2,892)
105	A & G Subtotal	(sum Ins 95 to 102 less In 103)	2,260,095		266,600
106	O & M EXPENSE SUBTOTAL	(In 89 + In 104)	2,757,573		764,078
107	Plus: TEA Settlement in Account 565	Company Records (Note M)	-	DA 1.00000	-
108	Plus: Transmission Lease Payments To Affiliates in Acct 565 (Company Records) (Note M)		-	DA 1.00000	-
109	TOTAL O & M EXPENSE	(In 105 + In 106 + In 107)	2,757,573		764,078
110	DEPRECIATION AND AMORTIZATION EXPENSE				
111	Production	336.2-6.f	-	NA 0.00000	-
112	Distribution	336.8.f	3,304,540	NA 0.00000	-
113	Transmission	336.7.f	435,749	TP 1.00000	435,749
114	Plus: Transmission Plant-in-Service Additions (Worksheet I)		11,785	TP 1.00000	11,785
115	General	336.10.f	95,372	W/S 0.11177	10,659
116	Intangible	336.1.f	336,434	W/S 0.11177	37,602
117	TOTAL DEPRECIATION AND AMORTIZATION	(sum Ins 110 to 115)	4,183,880		495,795
118	TAXES OTHER THAN INCOME	(Note N)			
119	Labor Related				
120	Payroll	Worksheet H In 18 D	172,166	W/S 0.11177	19,242
121	Plant Related				
122	Property	Worksheet H In 18 & 30 C	1,041,480	DA	120,806
123	Gross Receipts/Sales & Use	Worksheet H In 18 F	2,343,073	NA 0.00000	-
124	Other	Worksheet H In 18 E	434,208	GP(h) 0.15127	65,681
125	TOTAL OTHER TAXES	(sum Ins 119 to 123)	3,990,927		205,730
126	INCOME TAXES	(Note O)			
127	T=1 - (((1 - SIT) * (1 - FIT)) / (1 - SIT * FIT * p)) :		39.23%		
128	EIT=(T/(1-T)) * (1-(WCLTD/WACC)) =		47.63%		
129	where WCLTD=(In 160) and WACC = (In 163)				
130	and FIT, SIT & p are as given in Note O.				
131	GRCF=1 / (1 - T) = (from In 126)		1.6454		
132	Amortized Investment Tax Credit (enter negative)	(FF1 p.114, In 19.c)	-		
133	Income Tax Calculation	(In 127 * In 135)	2,742,033		352,540
134	ITC adjustment	(In 130 * In 131)	-	NP(h) 0.11590	-
135	TOTAL INCOME TAXES	(sum Ins 132 to 133)	2,742,033		352,540
136	RETURN ON RATE BASE (Rate Base*WACC)	(In 79 * In 163)	5,756,410		740,094
137	INTEREST ON IPP CONTRIBUTION FOR CONST. (Note E) (Worksheet D, In 2)		-	DA 1.00000	-
138	TOTAL REVENUE REQUIREMENT		19,430,823		2,558,237
	(sum Ins 108, 116, 124, 134, 135, 136)				

AEP East Companies  
Transmission Cost of Service Formula Rate  
Utilizing Historic Cost Data for 2008 and Projected Net Plant at Year-End 2009

KINGSPORT POWER COMPANY

SUPPORTING CALCULATIONS

In No.	TRANSMISSION PLANT INCLUDED IN PJM TARIFF							
138	Total transmission plant	(In 20)						17,421,868
139	Less transmission plant excluded from PJM Tariff	(Note P)						-
140	Less transmission plant included in OATT Ancillary Services	(Worksheet A, In 23, Col. (C))	(Note Q)					-
141	Transmission plant included in PJM Tariff	(In 138 - In 139 - In 140)						17,421,868
142	Percent of transmission plant in PJM Tariff	(In 141 / In 138)					<b>TP=</b>	<b>1.00000</b>
143	WAGES & SALARY ALLOCATOR (W/S)	(Note R)	Direct Payroll	Payroll Billed from AEP Service Corp.	Total			
144	Production	354.20.b	6,689	0	6,689	NA	0.00000	-
145	Transmission	354.21,22.b	211,327	73,992	285,319	TP	1.00000	285,319
146	Distribution	354.23.b	1,284,136	131,087	1,415,223	NA	0.00000	-
147	Other (Excludes A&G)	354.24,25,26.b	391,415	454,180	845,595	NA	0.00000	-
148	Total	(sum Ins 144 to 147)	1,893,567	659,259	2,552,826			285,319
149	Transmission related amount						<b>W/S=</b>	<b>0.11177</b>
150	WEIGHTED AVERAGE COST OF CAPITAL (WACC)							\$
151	Long Term Interest	(Worksheet K)						1,075,000
152	Preferred Dividends	(Worksheet K)						-
153	<u>Development of Common Stock:</u>							
154	Proprietary Capital	(FF1 p 112, Ln 16.c)						25,031,105
155	Less Preferred Stock (In 161)	(FF1 p 112, Ln 3.c)						-
156	Less Account 216.1	(FF1 p 112, Ln 12.c)						-
157	Less Account 219	(FF1 p 112, Ln 15.c)						-
158	Common Stock	(In 154 - In 155 - In 156 - In 157)						25,031,105
159							Cost (Note S)	Weighted
160	Long Term Debt (Note T)	(Worksheet K)	20,000,000	44.41%			5.38%	0.0239
161	Preferred Stock	(In 155)	-	0.00%			0.00%	0.0000
162	Common Stock	(In 158)	25,031,105	55.59%			12.10%	0.0673
163	Total	(Sum Ins 160 to 162)	45,031,105				<b>WACC=</b>	<b>0.0911</b>

AEP East Companies  
Transmission Cost of Service Formula Rate  
Utilizing Historic Cost Data for 2008 and Projected Net Plant at Year-End 2009

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:  
a) revenues for grandfathered PTP contracts included in the load divisor  
b) revenues for associated business projects provided by employees whose labor and overhead costs are in the transmission cost of service.  
c) rental revenues earned on assets included in the rate base.  
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 Plant balances in this study are projected as of December 31, 2009. Other ratebase amounts are as of December 31, 2008.
- 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 Allocations are shown on WS B.
- E Cash Working Capital assigned to transmission is one-eighth of O&M allocated to transmission, excluding AEP transmission equalization transfers, as shown on line 105.
- F Consistent with Paragraph 657 of Order 2003-A, the amount on line 78 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 136.
- G Removes the expense booked to transmission accounts included in the development of OATT ancillary services rates, including all of Account No. 561.
- H Removes cost of transmission service provided by others. To the extent such service is incurred to provide the PJM service at issue, e.g. transmission equalization agreement, such cost is added back after cash working capital is computed from line 124.
- I Per Note H above, this line is an adjustment to addback the activity in account 565 related to the PJM service at issue in this filing. The amount identified in column is used to remove the impact of this adjustment from the FCR rate calculated on line 11.
- J Removes the impact of regulatory deferrals or their amortization applicable only for state regulatory purposes.
- K General Plant and Administrative & General expenses may be functionalized based on allocators other than the W/S allocator. Full documentation must be provided.
- L Includes Regulatory Commission expenses itemized in FERC Form-1 at page 351, column H. Worksheet F allocates these expense items. 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.
- M Addback of activity recorded in 565 that represents inter-company sales or purchases of transmission capacity necessary to meet each AEP company's transmission load relative to their available transmission capacity.
- N Includes only FICA, unemployment, highway, property and other assessments charged in the current year. Gross receipts tax 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". If the utility is taxed in more than one state it must attach a work paper showing the name of each state and how the blended or composite SIT was developed. Furthermore, 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 131) 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 151) / long term debt (In 160). Preferred Stock cost rate = preferred dividends (In 152) / preferred outstanding (In 161). Common Stock cost rate (ROE) = 12.1%, the rate accepted by FERC in Docket No. ER08-XXX. It includes an additional 50 basis points for remaining a member of the PJM RTO
- T This note only applies to Indiana Michigan Power Company.

AEP East Companies  
Transmission Cost of Service Formula Rate  
Utilizing Historic Cost Data for 2008 with Year-End Rate Base Balances

**KINGSPORT POWER COMPANY**

Line No.			Total	Allocator	Transmission Amount
164	REVENUE REQUIREMENT (w/o incentives)	(In 300)			\$2,441,233
165	REVENUE CREDITS	(Note A) (Worksheet E)	76,961	DA 1.00000	\$ 76,961
166	REVENUE REQUIREMENT For All KgPCo Facilities	(In 164 less In 165)			\$ 2,364,272
<b>MEMO: The Carrying Charge Calculations on lines 168 to 174 below is used in calculating project revenue requirements billed on PJM Schedule 12. The total non-incentive revenue requirements for these projects shown on line 167 is included in the total on line 166.</b>					
167	Revenue Requirement for PJM RTEP Regional Facilities (w/o incentives)	(Worksheet J)	-	DA 1.00000	\$ -
168	NET PLANT CARRYING CHARGE W/O AFFILIATED LEASE PAYMENTS & T.E.A. ADJUSTMENT ADDBACK (w/o incentives) (Note B)				
169	Annual Rate	( (In 164 - In 269 - In 270) / In 211 x 100)			29.91%
170	Monthly Rate	(In 169 / 12)			2.49%
171	NET PLANT CARRYING CHARGE ON LINE 169 , W/O DEPRECIATION (w/o incentives) (Note B)				
172	Annual Rate	( (In 164 - In 269 - In 270 - In 275) / In 211 x 100)			24.57%
173	NET PLANT CARRYING CHARGE ON LINE 171, W/O INCOME TAXES, RETURN (Note B)				
174	Annual Rate	( (In 164 - In 269 - In 270 - In 275 - In 297 - In 298) / In 211 x 100)			12.47%
175	ADDITIONAL REVENUE REQUIREMENT for projects w/ incentive ROE's (Note B) (Worksheet J)				-
176	<b>REVENUE REQUIREMENT FOR SCHEDULE 1A CHARGES</b>				
177	Total Load Dispatch & Scheduling (Account 561)	Line 249 Below			46,135
178	Less: Load Disptach - Scheduling, System Control and Dispatch Services (321.88.b)				-
179	Less: Load Disptach - Reliability, Planning & Standards Development Services (321.92.b)				-
180	Total 561 Internally Developed Costs	(Line 177 - Line 178 - Line 179)			46,135

AEP East Companies  
Transmission Cost of Service Formula Rate  
Utilizing Historic Cost Data for 2008 with Year-End Rate Base Balances

KINGSPORT POWER COMPANY

	(1)	(2)	(3)	(4)	(5)
Line No.	<u>RATE BASE CALCULATION</u>	<u>Data Sources</u> <u>(See "General Notes")</u>	<u>TO Total</u> <u>NOTE C</u>	<u>Allocator</u>	<u>Total</u> <u>Transmission</u>
181	GROSS PLANT IN SERVICE				
181	Production	(Worksheet A In 1.C)	-	NA 0.00000	-
182	Less: Production ARO (Enter Negative)	(Worksheet A In 2.C)	-	NA 0.00000	-
183	Transmission	(Worksheet A In 3.C & Ln 304)	17,421,868	DA	17,421,868
184	Less: Transmission ARO (Enter Negative)	(Worksheet A In 4.C)	-	TP 1.00000	-
185	Plus: Transmission Plant-in-Service Additions (Worksheet I)		N/A	NA 0.00000	N/A
186	Plus: Additional Trans Plant on Transferred Assets (Worksheet I)		N/A	NA 0.00000	N/A
187	Distribution	(Worksheet A In 5.C)	96,617,889	NA 0.00000	-
188	Less: Distribution ARO (Enter Negative)	(Worksheet A In 6.C)	-	NA 0.00000	-
189	General Plant	(Worksheet A In 7.C)	2,249,505	W/S 0.11177	251,418
190	Less: General Plant ARO (Enter Negative)	(Worksheet A In 8.C)	-	W/S 0.11177	-
191	Intangible Plant	(Worksheet A In 9.C)	2,091,017	W/S 0.11177	233,704
192	TOTAL GROSS PLANT	(sum Ins 181 to 191)	118,380,279	GP(h)= 0.151267 GTD= 0.15277	17,906,991
193	ACCUMULATED DEPRECIATION AND AMORTIZATION				
194	Production	(Worksheet A In 12.C)	-	NA 0.00000	-
195	Less: Production ARO (Enter Negative)	(Worksheet A In 13.C)	-	NA 0.00000	-
196	Transmission	(Worksheet A In 14.C & 28.C)	9,259,738	TP1= 1.00000	9,259,738
197	Less: Transmission ARO (Enter Negative)	(Worksheet A In 15.C)	-	TP1= 1.00000	-
198	Plus: Transmission Plant-in-Service Additions (Worksheet I)		N/A	DA 1.00000	N/A
199	Plus: Additional Projected Deprec on Transferred Assets (Worksheet I)		N/A	DA 1.00000	N/A
200	Plus: Additional Transmission Depreciation for 2009 (In 275)		N/A	TP1 1.00000	N/A
201	Plus: Additional General & Intangible Depreciation for 2009 (In 274 + In 275)		N/A	W/S 0.11177	N/A
202	Plus: Additional Accum Deprec on Transferred Assets (Worksheet I)		N/A	DA 1.00000	N/A
203	Distribution	(Worksheet A In 16.C)	34,413,666	NA 0.00000	-
204	Less: Distribution ARO (Enter Negative)	(Worksheet A In 17.C)	-	NA 0.00000	-
205	General Plant	(Worksheet A In 18.C)	597,762	W/S 0.11177	66,809
206	Less: General Plant ARO (Enter Negative)	(Worksheet A In 19.C)	-	W/S 0.11177	-
207	Intangible Plant	(Worksheet A In 20.C)	2,067,337	W/S 0.11177	231,058
208	TOTAL ACCUMULATED DEPRECIATION	(sum Ins 194 to 207)	46,338,503		9,557,605
209	NET PLANT IN SERVICE				
210	Production	(In 181 + In 182 - In 194 - In 195)	-		-
211	Transmission	(In 183 + In 184 - In 196 + In 197)	8,162,130		8,162,130
212	Plus: Transmission Plant-in-Service Additions (In 185 - In 198)		N/A		N/A
213	Plus: Additional Trans Plant on Transferred Assets (In 186 - In 199)		N/A		N/A
214	Plus: Additional Transmission Depreciation for 2009 (-In 200)		N/A		N/A
215	Plus: Additional General & Intangible Depreciation for 2009 (-In 201)		N/A		N/A
216	Plus: Additional Accum Deprec on Transferred Assets (Worksheet I) (-In 202)		N/A		N/A
217	Distribution	(In 187 + In 188 - In 203 - In 204)	62,204,223		-
218	General Plant	(In 189 + In 190 - In 205 - In 206)	1,651,743		184,609
219	Intangible Plant	(In 191 - In 207)	23,680		2,647
220	TOTAL NET PLANT IN SERVICE	(sum Ins 210 to 219)	72,041,776	NP(h)= 0.115896	8,349,385
221	DEFERRED TAX ADJUSTMENTS TO RATE BASE	(Note D)			
222	Account No. 281.1 (enter negative)	(Worksheet B, In 2 & In 5.C)	-	NA	-
223	Account No. 282.1 (enter negative)	(Worksheet B, In 7 & In 10.C)	(10,454,510)	DA	(1,648,135)
224	Account No. 283.1 (enter negative)	(Worksheet B, In 12 & In 15.C)	(1,370,255)	DA	(179,327)
225	Account No. 190.1	(Worksheet B, In 17 & In 20.C)	1,087,635	DA	110,457
226	Account No. 255 (enter negative)	(Worksheet B, In 24 & In 25.C)	(265,210)	DA	(56,446)
227	TOTAL ADJUSTMENTS	(sum Ins 222 to 226)	(11,002,340)		(1,773,451)
228	PLANT HELD FOR FUTURE USE	(Worksheet A In 29 & In 30)	34,829	DA	-
229	CONSTRUCTION WORK IN PROGRESS	(Worksheet A In 31.C)	-	TP 1.00000	-
230	REGULATORY ASSETS	(Worksheet A In 36. (C))	-	DA	-
231	WORKING CAPITAL	(Note E)			
232	Cash Working Capital	(1/8 * In 268)	344,697		95,510
233	Transmission Materials & Supplies	(Worksheet C, In 2. (D))	1,363	TP 1.00000	1,363
234	A&G Materials & Supplies	(Worksheet C, In 3. (D))	1,255	W/S 0.11177	140
235	Stores Expense	(Worksheet C, In 4. (D))	-	GP(h) 0.15127	-
236	Prepayments (Account 165) - Labor Allocated	(Worksheet C, In 6.G)	4,195,477	W/S 0.11177	468,911
237	Prepayments (Account 165) - Gross Plant	(Worksheet C, In 6.F)	1,303,851	GP(h) 0.15127	197,229
238	Prepayments (Account 165) - Transmission Only	(Worksheet C, In 6.E)	-	DA 1.00000	-
239	Prepayments (Account 165) - Unallocable	(Worksheet C, In 6.D)	(4,153,628)	NA 0.00000	-
240	TOTAL WORKING CAPITAL	(sum Ins 232 to 239)	1,693,015		763,154
241	IPP CONTRIBUTIONS FOR CONSTRUCTION	(Note F) (Worksheet D, In 8. (B))	-	DA 1.00000	-
242	RATE BASE (sum Ins 220, 227, 228, 240, 241)		62,767,280		7,339,088

AEP East Companies  
Transmission Cost of Service Formula Rate  
Utilizing Historic Cost Data for 2008 with Year-End Rate Base 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
243	OPERATION & MAINTENANCE EXPENSE				
243	Production	321.80.b	92,230,150		
244	Distribution	322.156.b	4,440,967		
245	Customer Related Expense	322 & 323.164,171,178.b	1,948,269		
246	Regional Marketing Expenses	322.131.b	-		
247	Transmission	321.112.b	543,613		
248	TOTAL O&M EXPENSES	(sum Ins 243 to 247)	99,162,999		
249	Less: Total Account 561	(Note G) 321.84-92.b	46,135		
250	Less: Account 565	(Note H) 321.96.b	-		
251	Less: Regulatory Deferrals & Amortizations	(Note J) (Worksheet F, In 4)	-		
252	Total O&M Allocable to Transmission	(Ins 247 - 249 - 250 - 251)	497,478	TP 1.00000	497,478
253	Administrative and General	323.197.b (Note K)	2,398,976		
254	Less: Acct. 924, Property Insurance	323.185.b	15,748		
255	Acct. 928, Reg. Com. Exp.	323.189.b	237		
256	Acct. 930.1, Gen. Advert. Exp.	323.191.b	38,870		
257	Acct. 930.2, Misc. Gen. Exp.	323.192.b	176,297		
258	Balance of A & G	(In 253 - sum In 254 to In 257)	2,167,824	W/S 0.11177	242,289
259	Plus: Acct. 924, Property Insurance	(In 254)	15,748	GP(h) 0.15127	2,382
260	Acct. 928 - Transmission Specific	Worksheet F In 19.(E) (Note L)	-	TP 1.00000	-
261	Acct. 928 - Transmission Allocated	Worksheet F In 19.(F) (Note L)	-	GP(h) 0.15127	-
262	Acct 930.1 - Only safety related ads -Direct	Worksheet F In 35.(E) (Note L)	-	GP(h) 0.15127	-
263	Acct 930.1 - Only safety related ads - Allocated.	Worksheet F In 35.(F) (Note L)	-	DA 1.00000	-
264	Acct 930.2 - Misc Gen. Exp. - Trans	Worksheet F In 41.(E) (Note L)	15,060	DA 1.00000	15,060
265	Acct 930.2 - Misc Gen. Exp. - Allocated	Worksheet F In 41.(F) (Note L)	35,591	W/S 0.11177	3,978
266	Less: PBOP Expense In Acct. 926 Adjustment	Worksheet F In 12.(C) (Note L)	(25,872)	W/S 0.11177	(2,892)
267	A & G Subtotal	(sum Ins 258 to 265 less In 266)	2,260,095		266,600
268	O & M EXPENSE SUBTOTAL	(In 252 + In 267)	2,757,573		764,078
269	Plus: TEA Settlement in Account 565	Company Records (Note M)	-	DA 1.00000	-
270	Plus: Transmission Lease Payments To Affiliates in Acct 565 (Company Records) (Note M)		-	DA 1.00000	-
271	TOTAL O & M EXPENSE	(In 268 + In 269 + In 270)	2,757,573		764,078
272	DEPRECIATION AND AMORTIZATION EXPENSE				
273	Production	336.2-6.f	-	NA 0.00000	-
274	Distribution	336.8.f	3,304,540	NA 0.00000	-
275	Transmission	336.7.f	435,749	TP 1.00000	435,749
276	Plus: Transmission Plant-in-Service Additions (Worksheet I)		N/A		N/A
277	General	336.10.f	95,372	W/S 0.11177	10,659
278	Intangible	336.1.f	336,434	W/S 0.11177	37,602
279	TOTAL DEPRECIATION AND AMORTIZATION	(sum Ins 273 to 278)	4,172,095		484,010
280	TAXES OTHER THAN INCOME	(Note N)			
281	Labor Related				
282	Payroll	Worksheet H In 18 D	172,166	W/S 0.11177	19,242
283	Plant Related				
284	Property	Worksheet H In 18 & 30 C	1,041,480	DA	120,806
285	Gross Receipts/Sales & Use	Worksheet H In 18 F	2,343,073	NA 0.00000	-
286	Other	Worksheet H In 18 E	434,208	GP(h) 0.15127	65,681
287	TOTAL OTHER TAXES	(sum Ins 282 to 286)	3,990,927		205,730
288	INCOME TAXES	(Note O)			
289	$T=1 - \{[(1 - SIT) * (1 - FIT)] / (1 - SIT * FIT * p)\}$		39.23%		
290	$EIT=(T/(1-T)) * (1-(WCLTD/WACC)) =$		47.63%		
291	where WCLTD=(In 323) and WACC = (In 326)				
292	and FIT, SIT & p are as given in Note O.				
293	$GRCF=1 / (1 - T) =$ (from In 289)		1.6454		
294	Amortized Investment Tax Credit (enter negative)	(FF1 p.114, In 19.c)	-		
295	Income Tax Calculation	(In 290 * In 298)	2,724,734		318,591
296	ITC adjustment	(In 293 * In 294)	-	NP(h) 0.11590	-
297	TOTAL INCOME TAXES	(sum Ins 295 to 296)	2,724,734		318,591
298	RETURN ON RATE BASE (Rate Base*WACC)	(In 242 * In 326)	5,720,092		668,824
299	INTEREST ON IPP CONTRIBUTION FOR CONST. (Note E) (Worksheet D, In 2)		-	DA 1.00000	-
300	TOTAL REVENUE REQUIREMENT	(sum Ins 271, 279, 287, 297, 298, 299)	19,365,421		2,441,233

AEP East Companies  
Transmission Cost of Service Formula Rate  
Utilizing Historic Cost Data for 2008 with Year-End Rate Base Balances

KINGSPORT POWER COMPANY

SUPPORTING CALCULATIONS

In								
<u>No.</u>	TRANSMISSION PLANT INCLUDED IN PJM TARIFF							
301	Total transmission plant	(In 183)					17,421,868	
302	Less transmission plant excluded from PJM Tariff (Note P)						-	
303	Less transmission plant included in OATT Ancillary Services (Worksheet A, In 23, Col. (C)) (Note Q)						-	
304	Transmission plant included in PJM Tariff	(In 301 - In 302 - In 303)					<u>17,421,868</u>	
305	Percent of transmission plant in PJM Tariff	(In 304 / In 301)				<b>TP=</b>	<b>1.00000</b>	
306	WAGES & SALARY ALLOCATOR (W/S)	(Note R)	Payroll Billed from					
			Direct Payroll	AEP Service Corp.	Total			
307	Production	354.20.b	6,689	0	6,689	NA	0.00000	
308	Transmission	354.21,22.b	211,327	73,992	285,319	TP	1.00000	
309	Distribution	354.23.b	1,284,136	131,087	1,415,223	NA	0.00000	
310	Other (Excludes A&G)	354.24,25,26.b	391,415	454,180	845,595	NA	0.00000	
311	Total	(sum Ins 307 to 310)	<u>1,893,567</u>	<u>659,259</u>	<u>2,552,826</u>			
312	Transmission related amount					<b>W/S=</b>	<b>0.11177</b>	
313	WEIGHTED AVERAGE COST OF CAPITAL (WACC)						\$	
314	Long Term Interest	(Worksheet K)					<u>1,075,000</u>	
315	Preferred Dividends	(Worksheet K)					-	
316	<u>Development of Common Stock:</u>							
317	Proprietary Capital	(FF1 p 112, Ln 16.c)					<u>25,031,105</u>	
318	Less Preferred Stock (In 324)	(FF1 p 112, Ln 3.c)					-	
319	Less Account 216.1	(FF1 p 112, Ln 12.c)					-	
320	Less Account 219	(FF1 p 112, Ln 15.c)					-	
321	Common Stock	(In 317 - In 318 - In 319 - In 320)					<u>25,031,105</u>	
322			\$	%		Cost	Weighted	
						(Note S)		
323	Long Term Debt (Note T)	(Worksheet K)	<u>20,000,000</u>	44.41%		5.38%	0.0239	
324	Preferred Stock	(In 318)	-	0.00%		0.00%	0.0000	
325	Common Stock	(In 321)	<u>25,031,105</u>	55.59%		<u>12.10%</u>	0.0673	
326	Total	(Sum Ins 323 to 325)	<u>45,031,105</u>			<b>WACC=</b>	<b>0.0911</b>	

AEP East Companies  
Transmission Cost of Service Formula Rate  
Utilizing Historic Cost Data for 2008 with Year-End Rate Base 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:  
a) revenues for grandfathered PTP contracts included in the load divisor  
b) revenues for associated business projects provided by employees whose labor and overhead costs are in the transmission cost of service.  
c) rental revenues earned on assets included in the rate base.  
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 Plant balances in this study are as of December 31, 2008.
- 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 Allocations are shown on WS B.
- E Cash Working Capital assigned to transmission is one-eighth of O&M allocated to transmission, excluding AEP transmission equalization transfers, as shown on line 268.
- F Consistent with Paragraph 657 of Order 2003-A, the amount on line 241 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 299.
- G Removes the expense booked to transmission accounts included in the development of OATT ancillary services rates, including all of Account No. 561.
- H Removes cost of transmission service provided by others. To the extent such service is incurred to provide the PJM service at issue, e.g. transmission equalization agreement, such cost is added back after cash working capital is computed from line 287.
- I Per Note H above, this line is an adjustment to addback the activity in account 565 related to the PJM service at issue in this filing. The amount identified in column is used to remove the impact of this adjustment from the FCR rate calculated on line 174.
- J Removes the impact of regulatory deferrals or their amortization applicable only for state regulatory purposes.
- K General Plant and Administrative & General expenses may be functionalized based on allocators other than the W/S allocator. Full documentation must be provided.
- L Includes Regulatory Commission expenses itemized in FERC Form-1 at page 351, column H. Worksheet F allocates these expense items. 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.
- M Addback of activity recorded in 565 that represents inter-company sales or purchases of transmission capacity necessary to meet each AEP company's transmission load relative to their available transmission capacity.
- N Includes only FICA, unemployment, highway, property and other assessments charged in the current year. Gross receipts tax 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". If the utility is taxed in more than one state it must attach a work paper showing the name of each state and how the blended or composite SIT was developed. Furthermore, 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 294) 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 314) / long term debt (In 323). Preferred Stock cost rate = preferred dividends (In 315) / preferred outstanding (In 324). Common Stock cost rate (ROE) = 12.1%, the rate accepted by FERC in Docket No. ER08-XXX. It includes an additional 50 basis points for remaining a member of the PJM RTO
- T This note only applies to Indiana Michigan Power Company.

AEP East Companies  
Transmission Cost of Service Formula Rate  
Utilizing Actual Cost Data for 2008 with Average Ratebase Balances

**KINGSPORT POWER COMPANY**

Line No.					Transmission Amount
1	REVENUE REQUIREMENT (w/o incentives)	(ln 137)			\$0
			Total		
2	REVENUE CREDITS	(Note A) (Worksheet E)	-	DA 1.00000	\$ -
3	REVENUE REQUIREMENT For All KgPCo Facilities	(ln 1 less ln 2)			\$ -
<b>MEMO: The Carrying Charge Calculations on lines 5 to 11 below is used in calculating project revenue requirements billed on PJM Schedule 12. The total non-incentive revenue requirements for these projects shown on line 4 is included in the total on line 3.</b>					
4	Revenue Requirement for PJM RTEP Regional Facilities (w/o incentives)	(Worksheet J)	-	DA 1.00000	\$ -
5	NET PLANT CARRYING CHARGE W/O AFFILIATED LEASE PAYMENTS & T.E.A. ADJUSTMENT ADDBACK (w/o incentives) (Note B)				
6	Annual Rate	((ln 1 - ln 106 - ln 107) / ln 48 x 100)			0.00%
7	Monthly Rate	(ln 6 / 12)			0.00%
8	NET PLANT CARRYING CHARGE ON LINE 6 , W/O DEPRECIATION (w/o incentives) (Note B)				
9	Annual Rate	((ln 1 - ln 106 - ln 107 - ln 112) / ln 48 x 100)			0.00%
10	NET PLANT CARRYING CHARGE ON LINE 8, W/O INCOME TAXES, RETURN (Note B)				
11	Annual Rate	((ln 1 - ln 106 - ln 107 - ln 112 - ln 134 - ln 135) / ln 48 x 100)			0.00%
12	ADDITIONAL REVENUE REQUIREMENT for projects w/ incentive ROE's (Note B) (Worksheet J)				
12					-
13	<b>REVENUE REQUIREMENT FOR SCHEDULE 1A CHARGES</b>				
14	Total Load Dispatch & Scheduling (Account 561) Line 86 Below				
14					-
15	Less: Load Disptach - Scheduling, System Control and Dispatch Services (321.88.b)				
15					-
16	Less: Load Disptach - Reliability, Planning & Standards Development Services (321.92.b)				
16					-
17	Total 561 Internally Developed Costs (Line 14 - Line 15 - Line 16)				
17					-

AEP East Companies  
Transmission Cost of Service Formula Rate  
Utilizing Actual Cost Data for 2008 with Average Ratebase Balances

KINGSPORT POWER COMPANY

	(1)	(2)	(3)	(4)	(5)
	<b>Data Sources</b>				
	<b>(See "General Notes")</b>				
Line No.	<b>RATE BASE CALCULATION</b>		<b>TO Total</b>	<b>Allocator</b>	<b>Total</b>
			<b>NOTE C</b>		<b>Transmission</b>
	<b>GROSS PLANT IN SERVICE</b>				
18	Production	(Worksheet A In 1.C)	-	NA	0.00000
19	Less: Production ARO (Enter Negative)	(Worksheet A In 2.C)	-	NA	0.00000
20	Transmission	(Worksheet A In 3.C & Ln 141)	-	DA	-
21	Less: Transmission ARO (Enter Negative)	(Worksheet A In 4.C)	-	TP	0.00000
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.C)	-	NA	0.00000
25	Less: Distribution ARO (Enter Negative)	(Worksheet A In 6.C)	-	NA	0.00000
26	General Plant	(Worksheet A In 7.C.)	-	W/S	0.00000
27	Less: General Plant ARO (Enter Negative)	(Worksheet A In 8.C)	-	W/S	0.00000
28	Intangible Plant	(Worksheet A In 9.C)	-	W/S	0.00000
29	<b>TOTAL GROSS PLANT</b>	(sum Ins 18 to 28)	-	<b>GP(h)=</b>	<b>0.00000</b>
				<b>GTD=</b>	<b>0.00000</b>
	<b>ACCUMULATED DEPRECIATION AND AMORTIZATION</b>				
31	Production	(Worksheet A In 12.C)	-	NA	0.00000
32	Less: Production ARO (Enter Negative)	(Worksheet A In 13.C)	-	NA	0.00000
33	Transmission	(Worksheet A In 14.C & 28.C)	-	TP1=	0.00000
34	Less: Transmission ARO (Enter Negative)	(Worksheet A In 15.C)	-	TP1=	0.00000
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 2009 (In 112)		N/A	TP1	0.00000
38	Plus: Additional General & Intangible Depreciation for 2009 (In 114 + In 115)		N/A	W/S	0.00000
39	Plus: Additional Accum Deprec on Transferred Assets (Worksheet I)		N/A	DA	1.00000
40	Distribution	(Worksheet A In 16.C)	-	NA	0.00000
41	Less: Distribution ARO (Enter Negative)	(Worksheet A In 17.C)	-	NA	0.00000
42	General Plant	(Worksheet A In 18.C)	-	W/S	0.00000
43	Less: General Plant ARO (Enter Negative)	(Worksheet A In 19.C)	-	W/S	0.00000
44	Intangible Plant	(Worksheet A In 20.C)	-	W/S	0.00000
45	<b>TOTAL ACCUMULATED DEPRECIATION</b>	(sum Ins 31 to 44)	-		
	<b>NET PLANT IN SERVICE</b>				
47	Production	(In 18 + In 19 - In 31 - In 32)	-		
48	Transmission	(In 20 + In 21 - In 33 + In 34)	-		
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 2009 (-In 37)		N/A		
52	Plus: Additional General & Intangible Depreciation for 2009 (-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)	-		
55	General Plant	(In 26 + In 27 - In 42 - In 43)	-		
56	Intangible Plant	(In 28 - In 44)	-		
57	<b>TOTAL NET PLANT IN SERVICE</b>	(sum Ins 47 to 56)	-	<b>NP(h)=</b>	<b>0.00000</b>
	<b>DEFERRED TAX ADJUSTMENTS TO RATE BASE</b>				
59	Account No. 281.1 (enter negative)	(Worksheet B, In 2 & In 5.C)	-	NA	-
60	Account No. 282.1 (enter negative)	(Worksheet B, In 7 & In 10.C)	-	DA	-
61	Account No. 283.1 (enter negative)	(Worksheet B, In 12 & In 15.C)	-	DA	-
62	Account No. 190.1	(Worksheet B, In 17 & In 20.C)	-	DA	-
63	Account No. 255 (enter negative)	(Worksheet B, In 24 & In 25.C)	-	DA	-
64	<b>TOTAL ADJUSTMENTS</b>	(sum Ins 59 to 63)	-		
65	PLANT HELD FOR FUTURE USE	(Worksheet A In 29 & In 30)	-	DA	-
66	CONSTRUCTION WORK IN PROGRESS	(Worksheet A In 31.C)	-	TP	0.00000
67	REGULATORY ASSETS	(Worksheet A In 36. (C))	-	DA	-
	<b>WORKING CAPITAL</b>				
69	Cash Working Capital	(Note E) (1/8 * In 105)	-		
70	Transmission Materials & Supplies	(Worksheet C, In 2. (D))	-	TP	0.00000
71	A&G Materials & Supplies	(Worksheet C, In 3. (D))	-	W/S	0.00000
72	Stores Expense	(Worksheet C, In 4. (D))	-	GP(h)	0.00000
73	Prepayments (Account 165) - Labor Allocated	(Worksheet C, In 6. (G))	-	W/S	0.00000
74	Prepayments (Account 165) - Gross Plant	(Worksheet C, In 6. (F))	-	GP(h)	0.00000
75	Prepayments (Account 165) - Transmission Only	(Worksheet C, In 6. (E))	-	DA	1.00000
76	Prepayments (Account 165) - Unallocable	(Worksheet C, In 6. (D))	-	NA	0.00000
77	<b>TOTAL WORKING CAPITAL</b>	(sum Ins 69 to 76)	-		
78	IPP CONTRIBUTIONS FOR CONSTRUCTION	(Note F) (Worksheet D, In 8. (B))	-	DA	1.00000
79	<b>RATE BASE (sum Ins 57, 64, 65, 77, 78)</b>		-		

AEP East Companies  
Transmission Cost of Service Formula Rate  
Utilizing Actual Cost Data for 2008 with Average Ratebase Balances

KINGSPORT POWER COMPANY

	(1)	(2)	(3)	(4)	(5)
Line No.	EXPENSE, TAXES, RETURN & REVENUE REQUIREMENTS CALCULATION	Data Sources (See "General Notes")	TO Total	Allocater	Total Transmission
80	OPERATION & MAINTENANCE EXPENSE				
81	Production	321.80.b			
82	Distribution	322.156.b			
83	Customer Related Expense	322 & 323.164,171,178.b			
84	Regional Marketing Expenses	322.131.b			
85	Transmission	321.112.b			
86	TOTAL O&M EXPENSES	(sum Ins 80 to 84)	-		
87	Less: Total Account 561	(Note G) 321.84-92.b			
88	Less: Account 565	(Note H) 321.96.b			
89	Less: Regulatory Deferrals & Amortizations	(Note J) (Worksheet F, In 4)	-		
89	Total O&M Allocable to Transmission	(Ins 84 - 86 - 87 - 88)	-	TP 0.00000	-
90	Administrative and General	323.197.b (Note K)			
91	Less: Acct. 924, Property Insurance	323.185.b			
92	Acct. 928, Reg. Com. Exp.	323.189.b			
93	Acct. 930.1, Gen. Advert. Exp.	323.191.b			
94	Acct. 930.2, Misc. Gen. Exp.	323.192.b			
95	Balance of A & G	(In 90 - sum In 91 to In 94)	-	W/S 0.00000	-
96	Plus: Acct. 924, Property Insurance	(In 91)	-	GP(h) 0.00000	-
97	Acct. 928 - Transmission Specific	Worksheet F In 19.(E) (Note L)	-	TP 0.00000	-
98	Acct. 928 - Transmission Allocated	Worksheet F In 19.(F) (Note L)	-	GP(h) 0.00000	-
99	Acct 930.1 - Only safety related ads -Direct	Worksheet F In 35.(E) (Note L)	-	GP(h) 0.00000	-
100	Acct 930.1 - Only safety related ads - Allocated.	Worksheet F In 35.(F) (Note L)	-	DA 1.00000	-
101	Acct 930.2 - Misc Gen. Exp. - Trans	Worksheet F In 41.(E) (Note L)	-	DA 1.00000	-
102	Acct 930.2 - Misc Gen. Exp. - Allocated	Worksheet F In 41.(F) (Note L)	-	W/S 0.00000	-
103	Less: PBOP Expense In Acct. 926 Adjustment	Worksheet F In 12.(C) (Note L)	-	W/S 0.00000	-
104	A & G Subtotal	(sum Ins 95 to 102 less In 103)	-		-
105	O & M EXPENSE SUBTOTAL	(In 89 + In 104)	-		-
106	Plus: TEA Settlement in Account 565	Company Records (Note M)		DA 1.00000	-
107	Plus: Transmission Lease Payments To Affiliates in Acct 565 (Company Records) (Note M)			DA 1.00000	-
108	TOTAL O & M EXPENSE	(In 105 + In 106 + In 107)	-		-
109	DEPRECIATION AND AMORTIZATION EXPENSE				
110	Production	336.2-6.f		NA 0.00000	-
111	Distribution	336.8.f		NA 0.00000	-
112	Transmission	336.7.f		TP 0.00000	-
113	Plus: Transmission Plant-in-Service Additions (Worksheet I)		N/A		N/A
114	General	336.10.f		W/S 0.00000	-
115	Intangible	336.1.f		W/S 0.00000	-
116	TOTAL DEPRECIATION AND AMORTIZATION	(sum Ins 110 to 115)	-		-
117	TAXES OTHER THAN INCOME	(Note N)			
118	Labor Related				
119	Payroll	Worksheet H In 18 D	-	W/S 0.00000	-
120	Plant Related				
121	Property	Worksheet H In 18 & 30 C	-	DA	-
122	Gross Receipts/Sales & Use	Worksheet H In 18 F	-	NA 0.00000	-
123	Other	Worksheet H In 18 E	-	GP(h) 0.00000	-
124	TOTAL OTHER TAXES	(sum Ins 119 to 123)	-		-
125	INCOME TAXES	(Note O)			
126	$T=1 - \{[(1 - SIT) * (1 - FIT)] / (1 - SIT * FIT * p)\}$		0.00%		
127	$EIT=(T/(1-T)) * (1-(WCLTD/WACC)) =$		0.00%		
128	where WCLTD=(In 160) and WACC = (In 163)				
129	and FIT, SIT & p are as given in Note O				
130	$GRCF=1 / (1 - T) =$ (from In 126)		-		
131	Amortized Investment Tax Credit (enter negative)	(FF1 p.114, In 19.c)			
132	Income Tax Calculation	(In 127 * In 135)	-		-
133	ITC adjustment	(In 130 * In 131)	-	NP(h) 0.00000	-
134	TOTAL INCOME TAXES	(sum Ins 132 to 133)	-		-
135	RETURN ON RATE BASE (Rate Base*WACC)	(In 79 * In 163)	-		-
136	INTEREST ON IPP CONTRIBUTION FOR CONST. (Note E) (Worksheet D, In 2,		-	DA 1.00000	-
137	TOTAL REVENUE REQUIREMENT	(sum Ins 108, 116, 124, 134, 135, 136)	-		-

AEP East Companies  
Transmission Cost of Service Formula Rate  
Utilizing Actual Cost Data for 2008 with Average Ratebase Balances

KINGSPORT POWER COMPANY

SUPPORTING CALCULATIONS

In No.	TRANSMISSION PLANT INCLUDED IN PJM TARIFF							
138	Total transmission plant	(In 20)						-
139	Less transmission plant excluded from PJM Tariff (Note P)							-
140	Less transmission plant included in OATT Ancillary Services (Worksheet A, In 23, Col. (C)) (Note Q)							-
141	Transmission plant included in PJM Tariff	(In 138 - In 139 - In 140)						-
142	Percent of transmission plant in PJM Tariff	(In 141 / In 138)					<b>TP=</b>	<b>0.00000</b>
143	WAGES & SALARY ALLOCATOR (W/S)	(Note R)	Direct Payroll	Payroll Billed from AEP Service Corp.	Total			
144	Production	354.20.b			-	NA	0.00000	-
145	Transmission	354.21,22.b			-	TP	0.00000	-
146	Distribution	354.23.b			-	NA	0.00000	-
147	Other (Excludes A&G)	354.24,25,26.b			-	NA	0.00000	-
148	Total	(sum Ins 144 to 147)	0	0	0			-
149	Transmission related amount						<b>W/S=</b>	<b>0.00000</b>
150	WEIGHTED AVERAGE COST OF CAPITAL (WACC)							\$
151	Long Term Interest	(Worksheet K)						-
152	Preferred Dividends	(Worksheet K)						-
153	<u>Development of Common Stock:</u>				12/31/2007	12/31/2008		Average
154	Proprietary Capital	(FF1 p 112, Ln 16.c)			-	-		-
155	Less Preferred Stock (In 161)	(FF1 p 112, Ln 3.c)			-	-		-
156	Less Account 216.1	(FF1 p 112, Ln 12.c)			-	-		-
157	Less Account 219	(FF1 p 112, Ln 15.c)			-	-		-
158	Common Stock	(In 154 - In 155 - In 156 - In 157)						-
159			Average \$	%		Cost (Note S)		Weighted
160	Long Term Debt (Note T)	(Worksheet K)	-	0.00%		0.00%		0.0000
161	Preferred Stock	(In 155)	-	0.00%		0.00%		0.0000
162	Common Stock	(In 158)	-	0.00%		12.10%		0.0000
163	Total	(Sum Ins 160 to 162)	-				<b>WACC=</b>	<b>0.0000</b>

AEP East Companies  
Transmission Cost of Service Formula Rate  
Utilizing Actual Cost Data for 2008 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:  
a) revenues for grandfathered PTP contracts included in the load divisor  
b) revenues for associated business projects provided by employees whose labor and overhead costs are in the transmission cost of service.  
c) rental revenues earned on assets included in the rate base.  
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 No true-up.
- 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 Allocations are shown on WS B.
- E Cash Working Capital assigned to transmission is one-eighth of O&M allocated to transmission, excluding AEP transmission equalization transfers, as shown on line 105.
- F Consistent with Paragraph 657 of Order 2003-A, the amount on line 78 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 136.
- G Removes the expense booked to transmission accounts included in the development of OATT ancillary services rates, including all of Account No. 561.
- H Removes cost of transmission service provided by others. To the extent such service is incurred to provide the PJM service at issue, e.g. transmission equalization agreement, such cost is added back after cash working capital is computed from line 124.
- I Per Note H above, this line is an adjustment to addback the activity in account 565 related to the PJM service at issue in this filing. The amount identified in column is used to remove the impact of this adjustment from the FCR rate calculated on line 11.
- J Removes the impact of regulatory deferrals or their amortization applicable only for state regulatory purposes.
- K General Plant and Administrative & General expenses may be functionalized based on allocators other than the W/S allocator. Full documentation must be provided.
- L Includes Regulatory Commission expenses itemized in FERC Form-1 at page 351, column H. Worksheet F allocates these expense items. 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.
- M Addback of activity recorded in 565 that represents inter-company sales or purchases of transmission capacity necessary to meet each AEP company's transmission load relative to their available transmission capacity.
- N Includes only FICA, unemployment, highway, property and other assessments charged in the current year. Gross receipts tax 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". If the utility is taxed in more than one state it must attach a work paper showing the name of each state and how the blended or composite SIT was developed. Furthermore, 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 131) 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 151) / long term debt (In 160). Preferred Stock cost rate = preferred dividends (In 152) / preferred outstanding (In 161). Common Stock cost rate (ROE) = 12.1%, the rate accepted by FERC in Docket No. ER08-XXX. It includes an additional 50 basis points for remaining a member of the PJM RTO
- T This note only applies to Indiana Michigan Power Company.

AEP East Companies  
Cost of Service Formula Rate Using 2008 FF1 Balances  
Worksheet Supporting Plant Balances  
KINGSPORT POWER COMPANY

<u>Line Number</u>	<u>(A) Rate Base Item &amp; Supporting Balance</u>	<u>(B) Source of Data</u>	<u>(C) Balances @ 12/31/2008</u>	<u>(D) Balances 12/31/2009</u>	<u>(E) Average Balance for 2009</u>
<b>NOTE: Functional ARO investment and accumulated depreciation balances shown below are included in the total functional balances shown here.</b>					
<b><u>Plant Investment Balances</u></b>					
1	Production Plant In Service	FF1, page 204/205, ln 46, Col. (b)/(g)	-	-	-
2	Production Asset Retirement Obligation (ARO)	FF1, page 204/205, lns 15,24,34,44, Col. (b)/(g)	-	-	-
3	Transmission Plant In Service	FF1, page 206/207, ln 58, Col. (b)/(g)	17,421,868	-	-
4	Transmission Asset Retirement Obligation	FF1, page 206/207, ln 57, Col. (b)/(g)	-	-	-
5	Distribution Plant In Service	FF1, page 206/207, ln 75, Col. (b)/(g)	96,617,889	-	-
6	Distribution Asset Retirement Obligation	FF1, page 206/207, ln 74, Col. (b)/(g)	-	-	-
7	General Plant In Service	FF1, page 206/207, ln 99, Col. (b)/(g)	2,249,505	-	-
8	General Asset Retirement Obligation	FF1, page 206/207, lns 98, Col. (b)/(g)	-	-	-
9	Intangible Plant In Service	FF1, page 204/205, ln 5, Col. (b)/(g)	2,091,017	-	-
10	<b>Total Property Investment Balance</b>	(Sum of Lines: 3, 1, 5, 7, 9)	118,380,279	-	-
11	<b>Total ARO Balance (included in total on line 10)</b>	(Sum of Lines: 4, 2, 6, 8)	-	-	-
<b><u>Accumulated Depreciation &amp; Amortization Balances</u></b>					
12	Production Accumulated Depreciation	FF1, page 219, lns 20-24, Col. (b)	-	-	-
13	Production ARO Accumulated Depreciation	Company Records	-	-	-
14	Transmission Accumulated Depreciation	FF1, page 219, ln 25, Col. (b)	9,259,738	-	-
15	Transmission ARO Accumulated Depreciation	Company Records	-	-	-
16	Distribution Accumulated Depreciation	FF1, page 219, ln 26, Col. (b)	34,413,666	-	-
17	Distribution ARO Accumulated Depreciation	Company Records	-	-	-
18	General Accumulated Depreciation	FF1, page 219, ln 28, Col. (b)	597,762	-	-
19	General ARO Accumulated Depreciation	Company Records	-	-	-
20	Intangible Accumulated Amortization	FF1, page 200, ln 21, Col. (b)	2,067,337	-	-
21	<b>Total Accumulated Depreciation or Amortization</b>	(Sum of Lines: 14, 12, 16, 18, 20)	46,338,503	-	-
22	<b>Total ARO Balance (included in total on line 21)</b>	(Sum of Lines: 15, 13, 17, 19)	-	-	-
<b><u>Generation Step-Up Units</u></b>					
23	GSU Investment Amount	Company Records	-	-	-
24	GSU Accumulated Depreciation	Company Records	-	-	-
25	<b>GSU Net Balance</b>	(Line 23 - Line 24)	-	-	-
<b><u>Transmission Accumulated Depreciation Net of GSU Accumulated Depreciation</u></b>					
26	Transmission Accumulated Depreciation	(Line 14 Above)	9,259,738	-	-
27	Less: GSU Accumulated Depreciation	(Line 24 Above)	-	-	-
28	<b>Subtotal of Transmission Net of GSU</b>	(Line 26 - Line 27)	9,259,738	-	-
<b><u>Plant Held For Future Use</u></b>					
29	<u>Plant Held For Future Use</u>	FF1, page 214, ln 47, Col. (d)	34,829	-	-
30	<u>Transmission Plant Held For Future</u>	Company Records	-	-	-
31	<u>Construction Work In Progress</u>	Company Records	-	-	-
<b><u>Regulatory Assets Approved for Recovery in Ratebase</u></b>					
31					
32					
33					
34					
35					
36	Total Regulatory Deferrals Included in Ratebase		-	-	-

AEP East Companies  
Cost of Service Formula Rate Using 2008 FF1 Balances  
Worksheet 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, 2008</u>	<u>(D) Balances For Update Use</u>	<u>(E) Average Balance</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			-
4	Less: Other Excluded Deferrals	Company Records	-		-
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)	10,454,510		-
8	Less: ARO Related Deferrals	Company Records	0		-
9	Less: Other Excluded Deferrals	Company Records	8,806,375		-
10	Transmission Related Deferrals	Ln 7 - In 8 - In 9	1,648,135	-	-
11	<b><u>Account 283</u></b>				
12	Year End Utility Deferrals	FF1, p. 276 - 277, In 9, Col. (k)	1,370,255		-
13	Less: ARO Related Deferrals	Company Records	0		-
14	Less: Other Excluded Deferrals	Company Records	1,190,928		-
15	Transmission Related Deferrals	Ln 12 - In 13 - In 14	179,327	-	-
16	<b><u>Account 190</u></b>				
17	Year End Utility Deferrals	FF1, p. 234, In 8, Col. (c)	1,087,635		-
18	Less: ARO Related Deferrals	Company Records	0		-
19	Less: Other Excluded Deferrals	Company Records	977,178		-
20	Transmission Related Deferrals	Ln 17 - In 18 - In 19	110,457	-	-
21	<b><u>Account 255</u></b>				
22	Year End ITC Balances	FF1, p. 266-267, In 8, Col. (h)	265,210		-
23	Less: Balances Not Qualified for Ratebase	Company Records	0		-
24	ITC Balances Includeable Ratebase	Ln 22 - In 23	265,210	-	-
25	Transmission Related Deferrals	Company Records	56,446		-

AEP East Companies  
Cost of Service Formula Rate Using 2008 FF1 Balances  
Worksheet Supporting Working Capital Rate Base Adjustments  
KINGSPORT POWER COMPANY

(A)	(B)	(C)	(D)	(E)	(F)	(G)	(H)	(I)
<b>Materials &amp; Supplies</b>								
<u>Line Number</u>	<u>Source</u>	<u>Balance @ December 31, 2008</u>	<u>Balance @ December 31, 2007</u>	<u>Average Balance for Rate Year 2008</u>				
1								
2	Transmission Materials & Supplies	FF1, p. 227, ln 8, Col. (c)	1,363		-			
3	General Materials & Supplies	FF1, p. 227, ln 11, Col. (c)	1,255		-			
4	Stores Expense (Undistributed)	FF1, p. 227, ln 16, Col. (c)	0		-			

<b>Prepayment Balance Summary</b>						
	<u>Average of YE Balance</u>	<u>Excludable Balances</u>	<u>100% Transmission Related</u>	<u>Transmission Plant Related</u>	<u>Transmission Labor Related</u>	<u>Total Included in Ratebase (E)+(F)+(G)</u>
5						
6	Totals as of December 31, 2008	1,345,700	(4,153,628)	0	1,303,851	4,195,477
7	Totals as of December 31, 2007					
8	<b>Average Balance</b>	-	-	-	-	-

<b>Prepayments Account 165 - Balance @ 12/31/2008</b>						
	<u>2008 YE Balance</u>	<u>Excludable Balances</u>	<u>100% Transmission Related</u>	<u>Transmission Plant Related</u>	<u>Transmission Labor Related</u>	<u>Total Included in Ratebase (E)+(F)+(G)</u>
9	<u>Acc. No.</u>	<u>Description</u>				
10	1650001	Prepaid Insurance	32,067	-	32,067	32,067
11	165000208	Prepaid Taxes	1,271,784	-	1,271,784	1,271,784
12	1650003	Prepaid Rents	0	-	-	-
13	1650004	Prepaid Interest	0	-	-	-
14	1650005	Prepaid Employee Benefits	0	-	-	-
15	1650006	Other Prepayments	0	-	-	-
16	1650009	Prepaid Carry Cost-Factored AR	13,061	13,061	-	-
17	1650010	Prepaid Pension Benefits	4,195,477	-	4,195,477	4,195,477
18	1650014	FAS 158 Qual Contra Asset	(4,195,477)	(4,195,477)	-	-
19	1650016	FAS 112 ASSETS	28,789	28,789	-	-
		<b>Subtotal - Form 1, p 111.57.c</b>	1,345,700	(4,153,628)	0	1,303,851
					4,195,477	5,499,328

<b>Prepayments Account 165 - Balance For Update Use</b>						
	<u>For Update Use YE Balance</u>	<u>Excludable Balances</u>	<u>100% Transmission Related</u>	<u>Transmission Plant Related</u>	<u>Transmission Labor Related</u>	<u>Total Included in Ratebase (E)+(F)+(G)</u>
1	<u>Acc. No.</u>	<u>Description</u>				
2						-
3						-
4						-
5						-
6						-
7						-
8						-
9						-
10						-
11						-
		<b>Subtotal - Form 1, p 111.57.c</b>				

AEP East Companies  
Cost of Service Formula Rate Using 2008 FF1 Balances  
Worksheet Supporting IPP Credits  
KINGSPORT POWER COMPANY

<u>Line Number</u>	<u>(A) Description</u>	<u>(B) 2008</u>	<u>(C) For Update Use</u>
1	Net Funds from IPP Customers 12/31/2007 (FORM 1, P269, line 8 (b))	-	-
2	Interest Accrual	-	
3	Revenue Credits to Generators	-	
4	<u>Other Adjustments</u>		
5	Accounting Adjustment	-	
6		-	
7	Net Funds from IPP Customers 12/31/2008 (FORM 1, P269, line 8(f))	-	-
8	Average Balance for Year as Indicated in Column ((In 1 + In 7)/2)	-	-

AEP East Companies  
Cost of Service Formula Rate Using 2008 FF1 Balances  
Worksheet 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	196,721	196,721	-
2	Account 451, Miscellaneous Service Revenues	46,991	46,991	-
3	Account 454, Rent from Electric Property	1,237,038	1,199,712	37,326
4	Account 4560015, Associated Business Development	173,708	134,073	39,635
5	Account 456 - Other Electric Revenues	-	-	-
6	Accounts 4470004 & 5, Revenues from Grandfathered Transmission Contracts	-	-	-
7	<b>Total Other Operating Revenues To Reduce Revenue Requirement</b>	<b>1,654,458</b>	<b>1,577,497</b>	<b>76,961</b>

AEP East Companies  
Cost of Service Formula Rate Using 2008 FF1 Balances  
Worksheet Supporting Allocation of Specific O&M or A&G Expenses  
KINGSPORT POWER COMPANY

<u>Line</u> <u>Number</u>	<u>Item No.</u>	<u>Description</u>	<u>(C)</u> <u>2008</u> <u>Expense</u>	<u>(D)</u> <u>100%</u> <u>Non-Transmission</u>	<u>(E)</u> <u>100%</u> <u>Transmission</u> <u>Specific</u>	<u>(F)</u> <u>Transmission</u> <u>Allocated</u>	<u>(G)</u> <u>Explanation</u>
<b>Regulatory Deferrals &amp; Amortizations</b>							
1		No Applicable Charges for KgPCo	-				
2			-				
3							
4		<b>Total</b>	0				
<b>Account 926</b>							
<u>2007 Base Year OPEB Expense (Note 1)</u>							
5	9260021	Postretirement Benefits - OPEB	420,835				
6	9260057	Postret Ben Medicare Subsidy	(142,101)				
7		Net 2008 Base Year Expense	278,734				
8	<u>2008 Current Year Expense</u>						
9	9260021	Postretirement Benefits - OPEB	389,785				
10	9260057	Postret Ben Medicare Subsidy	(136,923)				
11		Net 2008 Expense	252,862				
12		<b>Net Increase (Decrease) in OPEB Expense</b>	(25,872)	This Amount Is Allocated on Wages & Salaries			
Note 1: Absent a 205 Filing with FERC, this base amount will not change in subsequent years.							
<b>Account 928</b>							
13	9280000	Regulatory Commission Exp	-	-	-	-	
14	9280001	Regulatory Commission Exp-Adm	2	2	-	-	Miscellaneous AEPSC Activity
15	9280001	Regulatory Commission Exp-Adm	-	-	-	-	
16	9280002	Regulatory Commission Exp-Case	235	235	-	-	Miscellaneous AEPSC Activity
17	9280002	Regulatory Commission Exp-Case	-	-	-	-	
18	9280002	Regulatory Commission Exp	-	-	-	-	
19		<b>Total</b>	237	237	-	-	
<b>Account 930.1</b>							
20	9301000	General Advertising Expenses	11	11	-	-	
21	9301001	Newspaper Advertising Space	-	-	-	-	
22	9301002	Radio Station Advertising Time	-	-	-	-	
23	9301003	TV Station Advertising Time	-	-	-	-	
24	9301005	Radio &TV Advertising Prod Exp	-	-	-	-	
25	9301006	Spec Corporate Comm Info Proj	-	-	-	-	
26	9301007	Special Adv Space & Prod Exp	-	-	-	-	
27	9301008	Direct Mail and Handouts	79	79	-	-	
28	9301009	Fairs, Shows, and Exhibits	14	14	-	-	
29	9301010	Publicity	84	84	-	-	
30	9301011	Dedications, Tours, & Openings	-	-	-	-	
31	9301012	Public Opinion Surveys	6,109	6,109	-	-	
32	9301013	Movies Slide Films & Speeches	10,278	10,278	-	-	
33	9301014	Video Communications	18	18	-	-	
34	9301015	Other Corporate Comm Exp	22,277	22,277	-	-	
35		<b>Total</b>	38,870	38,870	-	-	
<b>Account 930.2</b>							
36	9302000	Misc General Expenses	34,280			34,280	
37	9302003	Corporate & Fiscal Expenses	1,311			1,311	
38	9302004	Research, Develop&Demonstr Exp	985	985			
39	9302005	Nucl Fac Ins - Replce Engy Cst	0	0			
40	9302007	Assoc Business Development Exp	139,720	124,660	15,060		
41		<b>Total</b>	176,297	125,645	15,060	35,591	

AEP East Companies  
Cost of Service Formula Rate Using 2008 FF1 Balances  
Worksheet Supporting - Development of Composite State Income Tax Rate  
KINGSPORT POWER COMPANY

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

AEP East Companies  
Cost of Service Formula Rate Using 2008 FF1 Balances  
Worksheet Supporting Taxes Other than Income  
KINGSPORT POWER COMPANY

Line No.	(A) Account	(B) Total Company	(C) Property	(D) Labor	(E) Other	(F) Non-Allocable
1	<b>Revenue Taxes</b>					
2	Gross Receipts Tax	2,445,833				2,445,833
3	<b>Real Estate and Personal Property Taxes</b>					
4	Real and Personal Property - Tennessee	1,041,480	1,041,480			
5	Real and Personal Property - Other	-	-			
6	<b>Payroll Taxes</b>					
7	Federal Insurance Contribution (FICA )	166,687		166,687		
8	Federal Unemployment Tax	2,076		2,076		
9	State Unemployment Insurance	3,403		3,403		
10	<b>Miscellaneous Taxes</b>					
11	State Public Service Commission Fees	200,833			200,833	
12	State Franchise Taxes	231,569			231,569	
13	State Lic/Registration Fee	1,806			1,806	
14	Misc. State and Local Tax	-			-	
15	Sales & Use	(102,760)				(102,760)
16	Federal Excise Tax	-				-
17	Michigan Single Business Tax	-				-
18	Total Taxes by Allocable Basis (Total Company Amount Ties to FFI p.114, Ln 14,(c))	3,990,927	1,041,480	172,166	434,208	2,343,073

**Functional Property Tax Allocation**

	Production	Transmission	Distributions	General	Total	
19	Functionalized Net Plant (Hist. TCOS, Lns 210 thru 220)	-	8,162,130	62,204,223	1,651,743	72,018,096
20	Less: Net Value Exempted Generation Plant					
21	Taxable Property Basis (Ln 19 - Ln 20)	-	8,162,130	62,204,223	1,651,743	72,018,096
22	Relative Valuation Factor		100%	100%	100%	
23	Weighted Net Plant (Ln 21 * Ln 22)	-	8,162,130	62,204,223	1,651,743	
24	General Plant Allocator (Ln 23 / (Total - General Plant))	0.00%	11.60%	88.40%	-100.00%	
25	Functionalized General Plant (Ln 24 * General Plant)	-	191,594	1,460,149	(1,651,743)	-
26	Weighted TENNESSEE JURISDICTION Plant (Ln 23 + 25)	-	8,353,724	63,664,372	-	72,018,096
27	Functional Percentage (Ln 26/Total Ln 26)	0.00%	11.60%	88.40%		
28	Functionalized Payment in TENNESSEE JURISDICTION	-	120,806	920,674		1,041,480
29	Total Other Jurisdictions: (Line 5 * Net Plant Allocator)		-			-
30	Total Functionalized Property Taxes (Sum Lns 28 & 29)	-	120,806	920,674		1,041,480

**AEP East Companies**  
**Cost of Service Formula Rate Using 2008 FF1 Balances**  
**Worksheet Supporting Transmission Plant in Service Additions**  
**KINGSPORT POWER COMPANY**

**I. Calculation of Composite Depreciation Rate**

1	Transmission Plant @ Beginning of Historic Period (2008) (P.206, In 58,(b)):	17,262,240
2	Transmission Plant @ End of Historic Period (2008) (P.207, In 58,(g)):	17,421,868
3		34,684,108
4	Average Balance of Transmission Investment	17,342,054
5	Annual Depreciation Expense, Historic TCOS, In 275	435,749
6	Composite Depreciation Rate	2.51%
7	Round to 3% to Reflect a Composite Life of 33 Years	3.00%

**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	\$ (29,943)	3.00%	\$ (898)	\$ (75)	11	\$ (825)
10	February	\$ 83,708	3.00%	\$ 2,511	\$ 209	10	\$ 2,090
11	March	\$ 94,240	3.00%	\$ 2,827	\$ 236	9	\$ 2,124
12	April	\$ 90,078	3.00%	\$ 2,702	\$ 225	8	\$ 1,800
13	May	\$ 91,166	3.00%	\$ 2,735	\$ 228	7	\$ 1,596
14	June	\$ 97,120	3.00%	\$ 2,914	\$ 243	6	\$ 1,458
15	July	\$ 104,594	3.00%	\$ 3,138	\$ 261	5	\$ 1,305
16	August	\$ 86,239	3.00%	\$ 2,587	\$ 216	4	\$ 864
17	September	\$ 85,514	3.00%	\$ 2,565	\$ 214	3	\$ 642
18	October	\$ 98,136	3.00%	\$ 2,944	\$ 245	2	\$ 490
19	November	\$ 96,313	3.00%	\$ 2,889	\$ 241	1	\$ 241
20	December	\$ 380,687	3.00%	\$ 11,421	\$ 952	0	\$ -
21	Investment	\$ 1,277,853				Depreciation Expense	\$ 11,785

**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 2009**

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

**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 (Page 9 of 27, In 325)				12.10%
Project ROE Incentive Adder				
ROE with additional basis point incentive				12.10%
Determine R (cost of long term debt, cost of preferred stock and equity percentage is from Attachment H, Ins 323 through 325)				
	<u>%</u>	<u>Cost</u>	<u>Weighted cost</u>	
Long Term Debt	44.41%	5.38%	2.387%	
Preferred Stock	0.00%	0.00%	0.000%	
Common Stock	55.59%	12.10%	6.726%	
		R =		9.113%

SUMMARY OF ANNUAL PJM RTEP APPROVED REGIONAL REVENUE REQUIREMENTS				
		Rev Require	W Incentives	Incentive Amounts
HISTORIC YEAR	2007			
	As Projected in Prior Year	\$ -	\$ -	\$ -
	Actual after True-up	\$ -	\$ -	\$ -
	Incremental Revenue Requirement	-	-	-
PROJECTED YEAR	2008	-	-	\$ -

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

Rate Base (Page 7 of 27, In 242)	7,339,088
R (from A. above)	9.113%
Return (Rate Base x R)	668,824

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

Return (from B. above)	668,824
Effective Tax Rate (Page 8 of 27, In 290)	47.63%
Income Tax Calculation (Return x CIT)	318,591
ITC Adjustment	-
Income Taxes	318,591

**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 (Page 6 of 27, In 164)	2,441,233
T.E.A. & Lease Payments (Page 8 of 27, Lns 269 & 270)	-
Return (Page 8 of 27, In 298)	668,824
Income Taxes (Page 8 of 27, In 297)	318,591
Annual Revenue Requirement, Less Return and Taxes	1,453,818

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

Annual Revenue Requirement, Less Return and Taxes	1,453,818
Return (from I.B. above)	668,824
Income Taxes (from I.C. above)	318,591
Annual Revenue Requirement, with Basis Point ROE increase	2,441,233
Depreciation (Page 8 of 27, In 275)	435,749
Annual Rev. Req. w/ Basis Point ROE increase, less Depreciation	2,005,484

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

Net Transmission Plant (Page 7 of 27, In 211)	8,162,130
Annual Revenue Requirement, with Basis Point ROE increase	2,441,233
FCR with Basis Point increase in ROE	29.91%
Annual Rev. Req. w/ Basis Point ROE increase, less Dep.	2,005,484
FCR with Basis Point ROE increase, less Depreciation	24.57%
FCR less Depreciation (Page 8 of 27, In 172)	24.57%
Incremental FCR with 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)):	17,262,240
Transmission Plant @ End of Historic Period (P.207, In 58,(g)):	17,421,868
Subtotal	34,684,108
Average Transmission Plant Balance for 2008	17,342,054
Annual Depreciation Rate (Page 8 of 27, In 275)	435,749
Composite Depreciation Rate	2.51%
Depreciable Life for Composite Depreciation Rate	39.80
Round to nearest whole year	40



AEP East Companies  
Cost of Service Formula Rate Using 2008 FF1 Balances  
Worksheet Supporting Cost of Debt  
KINGSPORT POWER COMPANY

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

(A)	(B)	(C)	(D)	(E)
<u>Issuance</u>	<u>Principle Amount</u>	<u>Interest Rate</u>	<u>Annual Expense</u>	<u>Notes</u>
<b><u>Long Term Debt (FF1.p. 256-257.h)</u></b>				
Advances from Associated Companies	20,000,000	5.375%	1,075,000	
<u>Issuance Discount, Premium, &amp; Expenses:</u>				
Financial Hedges & Auction Fees	FF1.p. 256 & 257.Lines Described as Hedges or Fees		-	
Amort of Debt Discount and Expenses	FF1.p. 117.63.c		-	
Amor of Debt Premimums (Enter Negative)	FF1.p. 117.65.c		-	
<u>Reacquired Debt:</u>				
Amortization of Loss	FF1.p. 117.64.c		-	
Amortization of Gain	FF1.p. 117.66.c		-	
<b>Total Interest on Long Term Debt</b>	20,000,000	5.38%	1,075,000	
<b><u>Preferred Stock (FF1.p. 250-251)</u></b>				
<b><u>Preferred Shares Outstanding</u></b>				
4.125% Series - \$100 - Shares O/S	-	0.00%		-
	-	0.00%		-
	-	0.00%		-
<b>Dividends on Preferred Stock</b>	-	0.00%	-	

**Calculation of Average Debt Balance in Calendar Year**

Long Term Debt @ December 31, 2008	20,000,000
Long Term Debt @ December 31, 2009	(FF1, p.257.33.h)
Average Balance During 2009	20,000,000

**Calculation of Average Preferred Stock Balance in Calendar Year**

	<u>Balance</u>	<u>Dividend</u>
Preferred Stock @ December 31, 2008	-	
Preferred Stock @ December 31, 2009	-	
Average Balance During 2009	-	(FF1 p. 118. Ln 29.c)