

AEP East Companies
Transmission Cost of Service Formula Rate
Utilizing Actual/Projected FERC Form 1 Data

Twelve Months Ended 2017

KINGSPORT POWER COMPANY

| Line No. | | | Total | Allocator | Transmission Amount |
|----------|--|-----------------------------|--------|------------|---------------------|
| 1 | REVENUE REQUIREMENT (w/o incentives) | (ln 143) | | | \$4,326,215 |
| 2 | REVENUE CREDITS | (Worksheet E Ln 8) (Note A) | 65,686 | DA 1.00000 | \$ 65,686 |
| 3 | Facility Credits under PJM OATT Section 30.9 | (Worksheet E Ln 9) (Note X) | | | \$ - |
| 4 | REVENUE REQUIREMENT For All Company Facilities | (ln 1 less ln 2 plus ln 3) | | | \$ 4,260,529 |

MEMO: The Carrying Charge Calculations on lines 7 to 12 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 5 is included in the total on line 4.

| | | | | | |
|----|---|--|---|------------|--------|
| 5 | Revenue Requirement for PJM Schedule 12 Facilities (w/o incentives) (Worksheet J/K) | | - | DA 1.00000 | \$ - |
| 6 | NET PLANT CARRYING CHARGE w/o intra-AEP charges or credits or ROE incentives (Note B) | | | | |
| 7 | Annual Rate | ((ln 1 - ln 107) / ((ln 49 + ln 50 + ln 51 + ln 52 + ln 54) x 100)) | | | 19.84% |
| 8 | Monthly Rate | (ln 7 / 12) | | | 1.65% |
| 9 | NET PLANT CARRYING CHARGE ON LINE 7, w/o depreciation or ROE incentives (Note B) | | | | |
| 10 | Annual Rate | ((ln 1 - ln 107 - ln 112) / ((ln 49 + ln 50 + ln 51 + ln 52 + ln 54) x 100)) | | | 16.03% |
| 11 | NET PLANT CARRYING CHARGE ON LINE 10, w/o Return, income taxes or ROE incentives (Note B) | | | | |
| 12 | Annual Rate | ((ln 1 - ln 107 - ln 112 - ln 138 - ln 139) / ((ln 49 + ln 50 + ln 51 + ln 52 + ln 54) x 100)) | | | 5.72% |
| 13 | ADDITIONAL REVENUE REQUIREMENT for projects w/ incentive ROE's (Note B) (Worksheet J/K) | | | | |
| 14 | REVENUE REQUIREMENT FOR SCHEDULE 1A CHARGES | | | | |
| 15 | Total Load Dispatch & Scheduling (Account 561) | Line 86 Below | | | 48,779 |
| 16 | Less: Load Dispatch - Scheduling, System Control and Dispatch Services (321.88.b) | | | | 0 |
| 17 | Less: Load Dispatch - Reliability, Planning & Standards Development Services (321.92.b) | | | | 0 |
| 18 | Total 561 Internally Developed Costs | (Line 15 - Line 16 - Line 17) | | | 48,779 |

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| | (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> |
| 19 | GROSS PLANT IN SERVICE | | | | |
| 19 | Production | (Worksheet A In 1.E) | - | NA | 0.00000 |
| 20 | Less: Production ARO (Enter Negative) | (Worksheet A In 2.E) | - | NA | 0.00000 |
| 21 | Transmission | (Worksheet A In 3.E & Ln 147) | 34,754,967 | DA | 34,754,967 |
| 22 | Less: Transmission ARO (Enter Negative) | (Worksheet A In 4.E) | - | TP | 1.00000 |
| 23 | Line Deliberately Left Blank | | N/A | NA | 0.00000 |
| 24 | Line Deliberately Left Blank | | N/A | NA | 0.00000 |
| 25 | Distribution | (Worksheet A In 5.E) | 154,099,171 | NA | 0.00000 |
| 26 | Less: Distribution ARO (Enter Negative) | (Worksheet A In 6.E) | - | NA | 0.00000 |
| 27 | General Plant | (Worksheet A In 7.E) | 2,376,961 | W/S | 0.09691 |
| 28 | Less: General Plant ARO (Enter Negative) | (Worksheet A In 8.E) | - | W/S | 0.09691 |
| 29 | Intangible Plant | (Worksheet A In 9.E) | 3,558,626 | W/S | 0.09691 |
| 30 | TOTAL GROSS PLANT | (sum Ins 19 to 29) | 194,789,725 | GP(h)= | 0.181376 |
| | | | | GTD= | 0.18403 |
| 31 | ACCUMULATED DEPRECIATION AND AMORTIZATION | | | | |
| 32 | Production | (Worksheet A In 12.E) | - | NA | 0.00000 |
| 33 | Less: Production ARO (Enter Negative) | (Worksheet A In 13.E) | - | NA | 0.00000 |
| 34 | Transmission | (Worksheet A In 14.E & 28.E) | 12,946,818 | TP1= | 1.00000 |
| 35 | Less: Transmission ARO (Enter Negative) | (Worksheet A In 15.E) | - | TP1= | 1.00000 |
| 36 | Line Deliberately Left Blank | | N/A | DA | 0.00000 |
| 37 | Line Deliberately Left Blank | | N/A | DA | 0.00000 |
| 38 | Line Deliberately Left Blank | | N/A | TP | 0.00000 |
| 39 | Line Deliberately Left Blank | | N/A | W/S | 0.00000 |
| 40 | Line Deliberately Left Blank | | N/A | DA | 0.00000 |
| 41 | Distribution | (Worksheet A In 16.E) | 58,263,181 | NA | 0.00000 |
| 42 | Less: Distribution ARO (Enter Negative) | (Worksheet A In 17.E) | - | NA | 0.00000 |
| 43 | General Plant | (Worksheet A In 18.E) | 1,034,517 | W/S | 0.09691 |
| 44 | Less: General Plant ARO (Enter Negative) | (Worksheet A In 19.E) | - | W/S | 0.09691 |
| 45 | Intangible Plant | (Worksheet A In 20.E) | 1,609,535 | W/S | 0.09691 |
| 46 | TOTAL ACCUMULATED DEPRECIATION | (sum Ins 32 to 45) | 73,854,051 | | |
| 47 | NET PLANT IN SERVICE | | | | |
| 48 | Production | (In 19 + In 20 - In 32 - In 33) | - | | |
| 49 | Transmission | (In 21 + In 22 - In 34 - In 35) | 21,808,150 | | |
| 50 | Line Deliberately Left Blank | | N/A | | |
| 51 | Line Deliberately Left Blank | | N/A | | |
| 52 | Line Deliberately Left Blank | | N/A | | |
| 53 | Line Deliberately Left Blank | | N/A | | |
| 54 | Line Deliberately Left Blank | | N/A | | |
| 55 | Distribution | (In 25 + In 26 - In 41 - In 42) | 95,835,990 | | |
| 56 | General Plant | (In 27 + In 28 - In 43 - In 44) | 1,342,444 | | |
| 57 | Intangible Plant | (In 29 - In 45) | 1,949,091 | | |
| 58 | TOTAL NET PLANT IN SERVICE | (sum Ins 48 to 57) | 120,935,674 | NP(h)= | 0.182966 |
| 59 | DEFERRED TAX ADJUSTMENTS TO RATE BASE | (Note D) | | | |
| 60 | Account No. 281.1 (enter negative) | (Worksheet B, In 2 & In 5.E) | - | NA | - |
| 61 | Account No. 282.1 (enter negative) | (Worksheet B, In 7 & In 10.E) | (28,165,430) | DA | (5,141,033) |
| 62 | Account No. 283.1 (enter negative) | (Worksheet B, In 12 & In 15.E) | (6,896,792) | DA | (113,270) |
| 63 | Account No. 190.1 | (Worksheet B, In 17 & In 20.E) | 922,396 | DA | (130,125) |
| 64 | Account No. 255 (enter negative) | (Worksheet B, In 24 & In 25.E) | (63) | DA | (86) |
| 65 | TOTAL ADJUSTMENTS | (sum Ins 60 to 64) | (34,139,889) | | (5,384,515) |
| 66 | PLANT HELD FOR FUTURE USE | (Worksheet A In 29.E & In 30.E) | 187,481 | DA | - |
| 67 | REGULATORY ASSETS | (Worksheet A In 36.E) | - | DA | - |
| 68 | WORKING CAPITAL | (Note E) | | | |
| 69 | Cash Working Capital | (1/8 * In 89) | 55,752 | | |
| 70 | Transmission Materials & Supplies | (Worksheet C, In 2.(F)) | 801 | TP | 1.00000 |
| 71 | A&G Materials & Supplies | (Worksheet C, In 3.(F)) | 1,463 | W/S | 0.09691 |
| 72 | Stores Expense | (Worksheet C, In 4.(F)) | - | GP(h) | 0.18138 |
| 73 | Prepayments (Account 165) - Labor Allocated | (Worksheet C, In 8.G) | 6,017,755 | W/S | 0.09691 |
| 74 | Prepayments (Account 165) - Gross Plant | (Worksheet C, In 8.F) | 87,583 | GP(h) | 0.18138 |
| 75 | Prepayments (Account 165) - Transmission Only | (Worksheet C, In 8.E) | - | DA | 1.00000 |
| 76 | Prepayments (Account 165) - Unallocable | (Worksheet C, In 8.D) | (3,491,221) | NA | 0.00000 |
| 77 | TOTAL WORKING CAPITAL | (sum Ins 69 to 76) | 2,672,133 | | |
| 78 | IPP CONTRIBUTIONS FOR CONSTRUCTION | (Note F) (Worksheet D, In 8.B) | - | DA | 1.00000 |
| 79 | RATE BASE (sum Ins 58, 65, 66, 67, 77, 78) | | 89,655,399 | | 17,398,341 |

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| | (1) | (2) | (3) | (4) | (5) |
|----------|--|--|-------------|-----------|--------------------|
| Line No. | EXPENSE, TAXES, RETURN & REVENUE REQUIREMENTS CALCULATION | Data Sources (See "General Notes") | TO Total | Allocator | Total Transmission |
| 80 | OPERATION & MAINTENANCE EXPENSE | | | | |
| 80 | Production | 321.80.b | 124,790,288 | | |
| 81 | Distribution | 322.156.b | 4,877,069 | | |
| 82 | Customer Related Expense | 322 & 323.164,171,178.b | 1,338,384 | | |
| 83 | Regional Marketing Expenses | 322.131.b | - | | |
| 84 | Transmission | 321.112.b | 494,792 | | |
| 85 | TOTAL O&M EXPENSES | (sum Ins 80 to 84) | 131,500,533 | | |
| 86 | Less: Total Account 561 | (Note G) (Worksheet F, In 14.C) | 48,779 | | |
| 87 | Less: Account 565 | (Note H) 321.96.b | - | | |
| 88 | Less: Regulatory Deferrals & Amortizations | (Note I) (Worksheet F, In 4.C) | - | | |
| 89 | Total O&M Allocable to Transmission | (Ins 84 - 86 - 87 - 88) | 446,013 | TP | 1.00000 |
| 90 | Administrative and General | 323.197.b (Note J) | 2,799,745 | | |
| 91 | Less: Acct. 924, Property Insurance | 323.185.b | 144,022 | | |
| 92 | Acct. 9260039 PBOP Expense | PBOP Worksheet O Line 9 & 10, (Note K) | (330,262) | | |
| 93 | Acct. 9260057 PBOP Medicare Subsidy | PBOP Worksheet O Line 11, (Note K) | - | | |
| 94 | PBOP Expense Billed From AEPSC | PBOP Worksheet O Line 13, (Note K) | (47,967) | | |
| 95 | Acct. 928, Reg. Com. Exp. | 323.189.b | - | | |
| 96 | Acct. 930.1, Gen. Advert. Exp. | 323.191.b | 1,481 | | |
| 97 | Acct. 930.2, Misc. Gen. Exp. | 323.192.b | 78,917 | | |
| 98 | Balance of A & G | (In 90 - sum In 91 to In 97) | 2,953,554 | W/S | 0.09691 |
| 99 | Plus: Acct. 924, Property Insurance | (In 91) | 144,022 | GP(h) | 0.18138 |
| 100 | Acct. 928 - Transmission Specific | Worksheet F In 19.(E) (Note L) | - | TP | 1.00000 |
| 101 | Acct 930.1 - Only safety related ads -Direct | Worksheet F In 28.(E) (Note L) | - | TP | 1.00000 |
| 102 | Acct 930.2 - Misc Gen. Exp. - Trans | Worksheet F In 34.(E) (Note L) | 5,081 | DA | 1.00000 |
| 103 | Settlement Approved PBOP Recovery | PBOP Worksheet O, Col. C, Line 3, (Note M) | - | W/S | 0.09691 |
| 104 | A & G Subtotal | (sum Ins 98 to 103) | 3,102,657 | | |
| 105 | O & M EXPENSE SUBTOTAL | (In 89 + In 104) | 3,548,670 | | |
| 106 | Line Deliberately Left Blank | | | | |
| 107 | Plus: Transmission Lease Payments To Affiliates in Acct 565 (Company Records) (Note H) | | - | DA | 1.00000 |
| 108 | TOTAL O & M EXPENSE | (In 105 + In 107) | 3,548,670 | | |
| 109 | DEPRECIATION AND AMORTIZATION EXPENSE | | | | |
| 110 | Production | 336.2-6.f | - | NA | 0.00000 |
| 111 | Distribution | 336.8.f | 5,301,660 | NA | 0.00000 |
| 112 | Transmission | 336.7.f | 829,764 | TP1 | 1.00000 |
| 113 | Line Deliberately Left Blank | | N/A | | N/A |
| 114 | General | 336.10.f | 74,974 | W/S | 0.09691 |
| 115 | Intangible | 336.1.f | 682,819 | W/S | 0.09691 |
| 116 | TOTAL DEPRECIATION AND AMORTIZATION | (Ln 110+111+112+113+114+115) (Note N) | 6,889,217 | | |
| 117 | TAXES OTHER THAN INCOME | | | | |
| 118 | Labor Related | | | | |
| 119 | Payroll | Worksheet H In 21.(D) | 145,221 | W/S | 0.09691 |
| 120 | Plant Related | | | | |
| 121 | Property | Worksheet H In 21.(C) & In 35.(C) | 1,392,800 | DA | |
| 122 | Gross Receipts/Sales & Use | Worksheet H In 21.(F) | 8,702,000 | NA | 0.00000 |
| 123 | Other | Worksheet H In 21.(E) | 768,000 | GP(h) | 0.18138 |
| 124 | TOTAL OTHER TAXES | (sum Ins 119 to 123) | 11,008,021 | | |
| 125 | INCOME TAXES | (Note O) | | | |
| 126 | $T=1 - \frac{[(1 - SIT) * (1 - FIT)]}{(1 - SIT * FIT * p)}$ | | 39.22% | | |
| 127 | $EIT=(T/(1-T)) * (1-(WCLTD/WACC)) =$ | | 43.12% | | |
| 128 | where WCLTD=(In 167) and WACC = (In 170) | | | | |
| 129 | and FIT, SIT & p are as given in Note O. | | | | |
| 130 | $GRCF=1 / (1 - T) =$ (from In 126) | | 1.6452 | | |
| 131 | Amortized Investment Tax Credit (enter negative) | (FF1 p.114, In 19.c) | - | | |
| 132 | Excess Deferred Income Tax | (Note U) | 1,200 | DA | 1,000 |
| 133 | Tax Affect of Permanent Differences | (Note U) | 157,091 | DA | 9,200 |
| 134 | Income Tax Calculation | (In 127 * In 139) | 3,464,430 | | |
| 135 | ITC adjustment | (In 130 * In 131) | - | NP(h) | 0.18297 |
| 136 | Excess Deferred Income Tax | (In 130 * In 132) | 1,974 | | |
| 137 | Tax Affect of Permanent Differences | (In 130 * In 133) | 258,452 | | |
| 138 | TOTAL INCOME TAXES | (sum Ins 134 to 137) | 3,724,856 | | |
| 139 | RETURN ON RATE BASE (Rate Base*WACC) | (In 79 * In 170) | 8,033,513 | | |
| 140 | INTEREST ON IPP CONTRIBUTION FOR CONST. (Note F) (Worksheet D, In 2.(B)) | | - | DA | 1.00000 |
| 141 | (Gains) / Losses on Sales of Plant Held for Future Use (Worksheet N, In 4, Cols. ((F) & (H)) | | - | | |
| 142 | Tax Impact on Net Loss / (Gain) on Sales of Plant Held for Future Use (In 141 * In127) | | - | | |
| 143 | TOTAL REVENUE REQUIREMENT | (sum Ins 108, 116, 124, 138, 139, 140, 141, 142) | 33,204,278 | | |

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SUPPORTING CALCULATIONS

| In No. | TRANSMISSION PLANT INCLUDED IN PJM TARIFF | | | | | | | |
|--------|---|-------------------------------------|------------|---------|-----------|---------------|--------------|----------------|
| 144 | Total transmission plant | (In 21) | | | | | | 34,754,967 |
| 145 | Less transmission plant excluded from PJM Tariff (Note P) | | | | | | | - |
| 146 | Less transmission plant included in OATT Ancillary Services (Worksheet A, In 23, Col. (E)) (Note Q) | | | | | | | - |
| 147 | Transmission plant included in PJM Tariff | (In 144 - In 145 - In 146) | | | | | | 34,754,967 |
| 148 | Percent of transmission plant in PJM Tariff | (In 147 / In 144) | | | | | TP= | 1.00000 |
| 149 | WAGES & SALARY ALLOCATOR (W/S) | (Note R) | | | | | | |
| 150 | Production | 354.20.b | 0 | 0 | - | NA | 0.00000 | - |
| 151 | Transmission | 354.21.b | 1,358 | 267,385 | 268,743 | TP | 1.00000 | 268,743 |
| 152 | Regional Market Expenses | 354.22.b | 0 | 0 | - | NA | 0.00000 | - |
| 153 | Distribution | 354.23.b | 1,364,001 | 236,298 | 1,600,299 | NA | 0.00000 | - |
| 154 | Other (Excludes A&G) | 354.24,25,26.b | 410,962 | 493,229 | 904,191 | NA | 0.00000 | - |
| 155 | Total | (sum lns 150 to 154) | 1,776,321 | 996,912 | 2,773,233 | | | 268,743 |
| 156 | Transmission related amount | | | | | | W/S= | 0.09691 |
| 157 | WEIGHTED AVERAGE COST OF CAPITAL (WACC) | | | | | | | \$ |
| 158 | Long Term Interest | (Worksheet M, In. 21, col. (E)) | | | | | | 2,327,518 |
| 159 | Preferred Dividends | (Worksheet M, In. 55, col. (E)) | | | | | | - |
| 160 | <u>Development of Common Stock:</u> | | | | | | | |
| 161 | Proprietary Capital | (Worksheet M, In. 1, col. (E)) | | | | | | 40,823,022 |
| 162 | Less: Preferred Stock | (Worksheet M, In. 2, col. (E)) | | | | | | - |
| 163 | Less: Account 216.1 | (Worksheet M, In. 3, col. (E)) | | | | | | - |
| 164 | Less: Account 219 | (Worksheet M, In. 4, col. (E)) | | | | | | - |
| 165 | Common Stock | (In 161 - In 162 - In 163 - In 164) | | | | | | 40,823,022 |
| 166 | | | \$ | % | | Cost (Note S) | Weighted | |
| 167 | Long Term Debt (Note T) Worksheet M, In 11, In 22, col.) | | 37,500,000 | 47.88% | | 0.0621 | 0.0297 | |
| 168 | Preferred Stock (In 162) | | - | 0.00% | | - | 0.0000 | |
| 169 | Common Stock (In 165) | | 40,823,022 | 52.12% | | 11.49% | 0.0599 | |
| 170 | Total (Sum lns 167 to 169) | | 78,323,022 | | | | WACC= | 0.0896 |

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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.
7) If AEP East companies have any directly assigned transmission facilities, the revenue credits in the AEP East formula rate shall include all revenues associated with those directly assigned transmission facilities, irrespective of whether the loads of the customer are included in the formula rate divisor; provided however, such addition to revenue credits shall not be reflected if the costs of such directly assigned transmission facilities are not included in the transmission plant balances on which the formula rate ATRR is based.
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. Interest will be calculated based on Worksheet Q and any over under recovery will be filed and posted as part of the informational filing.
- C** Transmission Plant Balances in this study are projected or actual average beginning of year end of year balances.
- 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 flowthrough 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 the calculation of ADIT in the annual projection will be performed in accordance with IRS regulation Section 1.167(l)-(h)(6)(ii). 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. Detailed balances for the projected or actual period, distinguished between utility and non-utility balances, will be filed and posted as part of the information filing.
- E** Cash Working Capital assigned to transmission is one-eighth of O&M allocated to transmission, as shown on line 89. It excludes:
1) Load Scheduling & Dispatch Charges in account 561 that are collected in the OATT Ancillary Services Revenue, as shown on line 86.
2) Costs of Transmission of Electricity by Others, as described in Note H.
3) The impact of state regulatory deferrals and amortizations, as shown on line 88
4) All A&G Expenses, as shown on line 104.
- 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 140.
- 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 16 & 17 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 89. To the extent such service is incurred to provide the PJM service at issue, e.g. lease payments to affiliates, such cost is added back on line 107 to determine the total O&M collected in the formula. The amounts on line 107 is also excluded in the calculation of the FCR percentage calculated on lines 6 through 12.
The addbacks on line 107 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 line 107 is the KINGSPORT POWER COMPANY general ledger.
- I** Removes the impact of state regulatory deferrals or their amortization from Transmission 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 92 through 94 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 recorded in FERC Accounts 928 (Regulatory Commission Expense), 930.1 (Safety Related Advertising) and 930.2 (Miscellaneous General Expenses) that are not directly related to or properly allocable to transmission service will be removed from the TCOS. If AEP includes any expenses booked to these accounts in future ATRR updates, AEP must provide supporting information demonstrating that the underlying activities are directly related to providing transmission service. 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 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.
- 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 131) multiplied by (1/1-T). If the applicable tax rates are zero enter 0.
Inputs Required:
FIT = 35.00%
SIT = 6.49% (State Income Tax Rate or Composite SIT. Worksheet G)
p = 0.00% (percent of federal income tax deductible for state purposes)
- The formula rate shall reflect the applicable state and federal statutory tax rates in effect during the period the calculated estimated unit charges are applicable.
If the statutory tax rates change during such period, the effective tax rates used in the formula shall be weighted by the number of days the pre-change rate and post-change rate each is in effect.
- 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 158) / average long term debt (In 167). Preferred Stock cost rate = preferred dividends (In 159) / preferred outstanding (In 168). 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.
The amount of eligible hedging gains or losses included in total interest expense is limited to five basis points of the capital structure. Details and calculations of the weighted average cost of capital are shown on Worksheet M. Eligible Hedging Gains and Losses are computed on Worksheet M. The unamortized balance of eligible hedge gains/losses and related ADIT amounts shall not flow through the formula rate.
- T** The Long Term Debt balance for I&M includes the accumulated balance of principle and related interest for Spent Nuclear Fuel Disposal Costs collected prior to April 7, 1983.
This total balance of \$265,249,280 at 12/31/12 is not included in the balance in line 167 above.
The cost rates for long-term debt shall include interest expense and related periodic expenses (such as remarketing and letter of credit fees) as recorded in FERC Account 427 or 430, amortization of issuance costs (including insurance) and discounts as recorded in FERC Account 428, issuance premiums as recorded in FERC Account 429 and losses or gains on reacquired debt as recorded in FERC Accounts 428.1 or 429.1, respectively. The cost rates for preferred stock (if applicable) shall include the dividends.
- U** Tax effect of permanent differences captures the differences in the income taxes due under the Federal and State calculations that are not the result of timing differences. Transmission balances for the projected or actual period, will be filed and posted as part of the informational filing.
- V** Cash investment in prepaid pension and benefits recorded in FERC Account 165 is permitted to be included in the formula. A labor expense allocation factor will be used to allocate total company costs. All other prepayments recorded in FERC Account 165 are directly assigned to the transmission function, allocated or excludable balances detailed on Worksheet C.
- W** The formula rate shall allocate property tax expense based on the as filed net plant cost allocation method detailed on Worksheet H.
- X** Under Section 30.9 of the PJM OATT, a network customer that owns existing transmission facilities that are integrated with the Transmission Provider's Transmission System may be eligible to receive consideration either through a billing credit or some other mechanism. Calculation of any credit under this subsection, pursuant to approval by FERC for inclusion in this formula rate for collection on behalf of the network customer, shall be addressed in either the Network Customer's Service Agreement or any other agreement between the parties.

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

| Line Number | (A) Rate Base Item & Supporting Balance | (B) Source of Data | (C) Balance @ December 31, 2017 | (D) Balance @ December 31, 2016 | (E) Average Balance for 2017 |
|--|---|---|------------------------------------|------------------------------------|---------------------------------|
| NOTE: Functional ARO investment and accumulated depreciation balances shown below are included in the total functional balances shown here. | | | | | |
| Plant Investment Balances | | | | | |
| 1 | Production Plant In Service | FF1, page 205 Col.(g) & pg. 204 Col. (b), In 46 | - | - | - |
| 2 | Production Asset Retirement Obligation (ARO) | FF1, page 205&204, Col.(g)&(b), Ins 15,24,34,44 | - | - | - |
| 3 | Transmission Plant In Service | FF1, page 207 Col.(g) & pg. 206 Col. (b), In 58 | 38,587,873 | 30,922,061 | 34,754,967 |
| 4 | Transmission Asset Retirement Obligation | FF1, page 207 Col.(g) & pg. 206 Col. (b), In 57 | - | - | - |
| 5 | Distribution Plant In Service | FF1, page 207 Col.(g) & pg. 206 Col. (b), In 75 | 158,604,797 | 149,593,545 | 154,099,171 |
| 6 | Distribution Asset Retirement Obligation | FF1, page 207 Col.(g) & pg. 206 Col. (b), In 74 | - | - | - |
| 7 | General Plant In Service | FF1, page 207 Col.(g) & pg. 206 Col. (b), In 99 | 2,407,981 | 2,345,940 | 2,376,961 |
| 8 | General Asset Retirement Obligation | FF1, page 207 Col.(g) & pg. 206 Col. (b), In 98 | - | - | - |
| 9 | Intangible Plant In Service | FF1, page 205 Col.(g) & pg. 204 Col. (b), In 5 | 3,995,543 | 3,121,709 | 3,558,626 |
| 10 | Total Property Investment Balance | (Sum of Lines: 3, 1, 5, 7, 9) | 203,596,194 | 185,983,255 | 194,789,725 |
| 11 | Total ARO Balance (included in total on line 10) | (Sum of Lines: 4, 2, 6, 8) | - | - | - |
| Accumulated Depreciation & Amortization Balances | | | | | |
| 12 | Production Accumulated Depreciation | FF1, page 219, Ins 20-24, Col. (b) | - | - | - |
| 13 | Production ARO Accumulated Depreciation | Company Records - Note 1 | - | - | - |
| 14 | Transmission Accumulated Depreciation | FF1, page 219, In 25, Col. (b) | 12,942,936 | 12,950,699 | 12,946,818 |
| 15 | Transmission ARO Accumulated Depreciation | Company Records - Note 1 | - | - | - |
| 16 | Distribution Accumulated Depreciation | FF1, page 219, In 26, Col. (b) | 59,897,561 | 56,628,801 | 58,263,181 |
| 17 | Distribution ARO Accumulated Depreciation | Company Records - Note 1 | - | - | - |
| 18 | General Accumulated Depreciation | FF1, page 219, In 28, Col. (b) | 1,067,944 | 1,001,090 | 1,034,517 |
| 19 | General ARO Accumulated Depreciation | Company Records - Note 1 | - | - | - |
| 20 | Intangible Accumulated Amortization | FF1, page 200, In 21, Col. (b) | 1,710,444 | 1,508,626 | 1,609,535 |
| 21 | Total Accumulated Depreciation or Amortization | (Sum of Lines: 14, 12, 16, 18, 20) | 75,618,885 | 72,089,216 | 73,854,051 |
| 22 | Total ARO Balance (included in total on line 21) | (Sum of Lines: 15, 13, 17, 19) | - | - | - |
| Generation Step-Up Units | | | | | |
| 23 | GSU Investment Amount | Company Records - Note 1 | - | - | - |
| 24 | GSU Accumulated Depreciation | Company Records - Note 1 | - | - | - |
| 25 | GSU Net Balance | (Line 23 - Line 24) | - | - | - |
| Transmission Accumulated Depreciation Net of GSU Accumulated Depreciation | | | | | |
| 26 | Transmission Accumulated Depreciation | (Line 14 Above) | 12,942,936 | 12,950,699 | 12,946,818 |
| 27 | Less: GSU Accumulated Depreciation | (Line 24 Above) | - | - | - |
| 28 | Subtotal of Transmission Net of GSU | (Line 26 - Line 27) | 12,942,936 | 12,950,699 | 12,946,818 |
| Plant Held For Future Use | | | | | |
| 29 | Plant Held For Future Use | FF1, page 214, In 47, Col. (d) | 187,481 | 187,481 | 187,481 |
| 30 | Transmission Plant Held For Future | Company Records - Note 1 | - | - | - |
| Regulatory Assets and Liabilities Approved for Recovery In Ratebase | | | | | |
| 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 Actual/Projected 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, 2017</u> | <u>(D) Balance @ December 31, 2016</u> | <u>(E) Average Balance for 2017</u> |
|--------------------|---|-----------------------------------|--|--|---|
| 1 | <u>Account 281</u> | | | | |
| 2 | Year End Utility Deferrals | FF1, p. 272 - 273, ln 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 - ln 3 - ln 4 | - | - | - |
| 6 | <u>Account 282</u> | | | | |
| 7 | Year End Utility Deferrals | FF1, p. 274 - 275, ln 5, Col. (k) | 30,088,263 | 26,242,597 | 28,165,430 |
| 8 | Less: ARO Related Deferrals | Company Records - Note 1 | - | - | - |
| 9 | Less: Other Excluded Deferrals | Company Records - Note 1 | 24,765,956 | 21,282,838 | 23,024,397 |
| 10 | Transmission Related Deferrals | Ln 7 - ln 8 - ln 9 | 5,322,307 | 4,959,760 | 5,141,033 |
| 11 | <u>Account 283</u> | | | | |
| 12 | Year End Utility Deferrals | FF1, p. 276 - 277, ln 9, Col. (k) | 7,006,690 | 6,786,893 | 6,896,792 |
| 13 | Less: ARO Related Deferrals | Company Records - Note 1 | - | - | - |
| 14 | Less: Other Excluded Deferrals | Company Records - Note 1 | 6,885,137 | 6,681,906 | 6,783,521 |
| 15 | Transmission Related Deferrals | Ln 12 - ln 13 - ln 14 | 121,554 | 104,987 | 113,270 |
| 16 | <u>Account 190</u> | | | | |
| 17 | Year End Utility Deferrals | FF1, p. 234, ln 8, Col. (c) | 747,396 | 1,097,396 | 922,396 |
| 18 | Less: ARO Related Deferrals | Company Records - Note 1 | - | - | - |
| 19 | Less: Other Excluded Deferrals | Company Records - Note 1 | 932,548 | 1,172,495 | 1,052,522 |
| 20 | Transmission Related Deferrals | Ln 17 - ln 18 - ln 19 | (185,152) | (75,099) | (130,125) |
| 21 | <u>Account 255</u> | | | | |
| 22 | Year End ITC Balances | FF1, p. 266-267, ln 8, Col. (h) | 88 | 38 | 63 |
| 23 | Less: Balances Not Qualified for Ratebase | Company Records - Note 1 | - | - | - |
| 24 | ITC Balances Includeable Ratebase | Ln 22 - ln 23 | 88 | 38 | 63 |
| 25 | Transmission Related Deferrals | Company Records - Note 1 | 86 | 86 | 86 |

NOTE 1 On this worksheet, "Company Records" refers to AEP's tax accounting ledger. Projected ending balances reflect proration required by IRS Letter Rule Section I.167(l)-(h)(6)(ii).

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

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

| (A) | (B) | (C) | (D) | (E) | (F) | (G) | (H) | (I) |
|---------------------------------|-----------------------------------|------------------------------------|-----------------------------|--------------------------|-------|-----|-----|-----|
| Materials & Supplies | | | | | | | | |
| Line Number | Source | Balance @ December 31, 2017 | Balance @ December 31, 2016 | Average Balance for 2017 | | | | |
| 1 | | | | | | | | |
| 2 | Transmission Materials & Supplies | FF1, p. 227, ln 8, Col. (c) & (b) | 801 | 801 | 801 | | | |
| 3 | General Materials & Supplies | FF1, p. 227, ln 11, Col. (c) & (b) | 1,463 | 1,463 | 1,463 | | | |
| 4 | Stores Expense (Undistributed) | FF1, p. 227, ln 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, 2017 | 2,183,114 | (3,491,221) | 0 | 87,583 | 6,448,759 | 6,536,342 |
| 7 | Totals as of December 31, 2016 | 2,183,113 | (3,491,221) | | 87,583 | 5,586,752 | 5,674,335 |
| 8 | Average Balance | 2,183,113 | (3,491,221) | - | 87,583 | 6,017,755 | 6,105,339 |

Prepayments Account 165 - Balance @ 12/31/2017

| 9 | Acc. No. | Description | 2017 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 | 62,128 | - | | 62,128 | | 62,128 | Plant Related Insurance Policies |
| 11 | 165000215 | Prepaid Taxes | 0 | - | | | | - | Prepaid Taxes - Distribution |
| 12 | 165000216 | Prepaid Taxes | 0 | - | | | | - | Prepaid Taxes - Distribution |
| 13 | 1650003 | Prepaid Rents | 2,068,496 | 2,068,496 | | | | - | |
| 14 | 1650004 | Prepaid Interest | 9,839 | 9,839 | | | | - | |
| 15 | 1650005 | Prepaid Employee Benefits | 9,000 | 9,000 | | | | - | Prepaid Benefits-Distribution |
| 16 | 1650006 | Other Prepayments | 0 | - | | | | - | Prepayments-Other |
| 17 | 1650009 | Prepaid Carry Cost-Factored AR | 8,196 | 8,196 | | | | - | AR Factoring - Retail Only |
| 18 | 1650010 | Prepaid Pension Benefits | 4,724,745 | - | | | 4,724,745 | 4,724,745 | Prefunded Pension Expense |
| 19 | 1650014 | FAS 158 Qual Contra Asset | (4,724,745) | (4,724,745) | | | | - | SFAS 158 Offset |
| 20 | 1650016 | FAS 112 ASSETS | 25,455 | - | | 25,455 | | 25,455 | |
| 21 | 1650021 | Prepaid Insurance - EIS | 0 | - | | | | - | EIS Insurance |
| 22 | 1650023 | Prepaid Lease | 0 | - | | | 862,007 | 862,007 | Prepaid Lease - Distribution |
| 23 | 1650035 | PRW Without Med-D Benefits | 862,007 | - | | | 862,007 | 862,007 | Medical Benefits |
| 24 | 1650036 | PRW for Med-D Benefits | 0 | - | | | | - | |
| 25 | 1650037 | FAS158 Contra-PRW Exc Med-D | (862,007) | (862,007) | | | | - | SFAS 158 Offset |
| Subtotal - Form 1, p 111.57.c | | | 2,183,114 | (3,491,221) | 0 | 87,583 | 6,448,759 | 6,536,342 | |

Prepayments Account 165 - Balance @ 12/31/ 2016

| 26 | Acc. No. | Description | 2016 YE Balance | Excludable Balances | 100% Transmission Related | Transmission Plant Related | Transmission Labor Related | Total Included in Ratebase (E)+(F)+(G) | Explanation |
|--------------------------------------|-----------|--------------------------------|------------------|---------------------|---------------------------|----------------------------|----------------------------|--|----------------------------------|
| 27 | 1650001 | Prepaid Insurance | 62,128 | - | | 62,128 | | 62,128 | Plant Related Insurance Policies |
| 28 | 165000215 | Prepaid Taxes | 0 | - | | | | - | Prepaid Taxes - Distribution |
| 29 | 165000216 | Prepaid Taxes | 0 | - | | | | - | Prepaid Taxes - Distribution |
| 30 | 1650003 | Prepaid Rents | 2,068,496 | 2,068,496 | | | | - | |
| 31 | 1650004 | Prepaid Interest | 9,839 | 9,839 | | | | - | |
| 32 | 1650005 | Prepaid Employee Benefits | 9,000 | 9,000 | | | | - | Prepaid Benefits-Distribution |
| 33 | 1650006 | Other Prepayments | 0 | - | | | | - | Prepayments-Other |
| 34 | 1650009 | Prepaid Carry Cost-Factored AR | 8,196 | 8,196 | | | | - | AR Factoring - Retail Only |
| 35 | 1650010 | Prepaid Pension Benefits | 4,724,745 | - | | | 4,724,745 | 4,724,745 | Prefunded Pension Expense |
| 36 | 1650014 | FAS 158 Qual Contra Asset | (4,724,745) | (4,724,745) | | | | - | SFAS 158 Offset |
| 37 | 1650016 | FAS 112 ASSETS | 25,455 | - | | 25,455 | | 25,455 | |
| 38 | 1650021 | Prepaid Insurance - EIS | 0 | - | | | | - | EIS Insurance |
| 39 | 1650023 | Prepaid Lease | 0 | - | | | | - | Prepaid Lease - Distribution |
| 40 | 1650035 | PRW Without Med-D Benefits | 862,007 | - | | | 862,007 | 862,007 | Medical Benefits |
| 41 | 1650036 | PRW for Med-D Benefits | 0 | - | | | | - | |
| 42 | 1650037 | FAS158 Contra-PRW Exc Med-D | (862,007) | (862,007) | | | | - | SFAS 158 Offset |
| Subtotal - Form 1, p 111.57.d | | | 2,183,113 | (3,491,221) | | 87,583 | 5,586,752 | 5,674,335 | |

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

| <u>Line Number</u> | <u>(A) Description</u> | <u>(B) 2017</u> |
|--------------------|---|-----------------|
| 1 | Net Funds from IPP Customers 12/31/2016 (2017 FORM 1, P269, line 24.b) | 0 |
| 2 | Interest Accrual (Company Records - Note 1) | 0 |
| 3 | Revenue Credits to Generators (Company Records - Note 1) | 0 |
| 4 | <u>Other Adjustments</u> | |
| 5 | Accounting Adjustment (Company Records - Note 1) | 0 |
| 6 | | - |
| 7 | Net Funds from IPP Customers 12/31/2017 (2017 FORM 1, P269, line 24.f) | - |
| 8 | Average Balance for Year as Indicated in Column B $((\text{In } 1 + \text{In } 7)/2)$ | - |

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

AEP East Companies
 Cost of Service Formula Rate Using Actual/Projected 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) | 290,736 | 290,736 | - |
| 2 | Account 451, Miscellaneous Service Revenues (FF1 p.300.17.(b); Company Records - Note 1) | 10,691 | 10,691 | - |
| 3 | Account 454, Rent from Electric Property (FF1 p.300.19.(b); Company Records - Note 1) | 1,211,170 | 1,156,205 | 54,965 |
| 4 | Account 4560015, Associated Business Development - (Company Records - Note 1) | 20,000 | 9,279 | 10,721 |
| 5 | Account 456 - Other Electric Revenues - (Company Records - Note 1) | 2,995,827 | 2,995,827 | - |
| 6 | Subtotal - Other Operating Revenues (Company Total equals (FF1 p. 300.26.(b)) | 4,528,424 | 4,462,738 | 65,686 |
| 7 | Accounts 4470004 & 5, Revenues from Grandfathered Transmission Contracts - (Company Records - Note 1) | - | - | - |
| 8 | Total Other Operating Revenues To Reduce Revenue Requirement | 4,528,424 | 4,462,738 | 65,686 |

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.

| | | | | |
|---|--|--|--|---|
| 9 | Facility Credits under PJM OATT Section 30.9 | | | - |
|---|--|--|--|---|

AEP East Companies
Cost of Service Formula Rate Using Actual/Projected 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) 2017 Expense</u> | <u>(D) 100% Non-Transmission</u> | <u>(E) 100% Transmission Specific</u> | <u>(F) Explanation</u> |
|---|-------------------------|--|---------------------------------|--|---|----------------------------|
| Regulatory O&M Deferrals & Amortizations | | | | | | |
| 1 | | No Applicable Charges for KP | - | | | |
| 2 | | | - | | | |
| 3 | | | | | | |
| 4 | | Total | <u>0</u> | | | |
| Detail of Account 561 Per FERC Form 1 | | | | | | |
| 5 | FF1 p 321.84.b | 561 - Load Dispatching | 0 | | | |
| 6 | FF1 p 321.85.b | 561.1 - Load Dispatch - Reliability | 48,779 | | | |
| 7 | FF1 p 321.86.b | 561.2 - Load Dispatch - Monitor & Operate Trans System | 0 | | | |
| 8 | FF1 p 321.87.b | 561.3 - Load Dispatch - Trans Service & Scheduling | 0 | | | |
| 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 | 0 | | | |
| 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 | | Total of Account 561 | <u>48,779</u> | | | |
| Account 928 | | | | | | |
| 15 | 9280000 | Regulatory Commission Exp | - | - | - | |
| 16 | 9280001 | Regulatory Commission Exp-Adm | - | - | - | |
| 17 | 9280002 | Regulatory Commission Exp-Case | - | - | - | |
| 18 | 9280003 | Rate Case Amortization | - | - | - | |
| 19 | | Total | <u>-</u> | <u>-</u> | <u>-</u> | |
| Account 930.1 | | | | | | |
| 20 | 9301000 | General Advertising Expenses | 1,481 | 1,481 | - | |
| 21 | 9301001 | Newspaper Advertising Space | - | - | - | |
| 22 | 9301009 | Fairs, Shows and Exhibits | - | - | - | |
| 23 | 9301010 | Dedications, Tours & Openings | - | - | - | |
| 24 | 9301012 | Public Opinion Surveys | - | - | - | |
| 25 | 9301013 | Movies Slide Films & Speeches | - | - | - | |
| 26 | 9301014 | Video Communications | - | - | - | |
| 27 | 9301015 | Other Corporate Comm Exp | - | - | - | |
| 28 | | Total | <u>1,481</u> | <u>1,481</u> | <u>-</u> | |
| Account 930.2 | | | | | | |
| 29 | 9302000 | Misc General Expenses | 5,171 | 5,171 | | |
| 30 | 9302003 | Corporate & Fiscal Expenses | 0 | 0 | | |
| 31 | 9302004 | Research, Develop&Demonstr Exp | 0 | 0 | | |
| 32 | 9302005 | Nucl Fac Ins - Replce Engy Cst | 0 | 0 | | |
| 32 | 9302006 | Assoc Business Development Materials Sold | 0 | 0 | 0 | |
| 33 | 9302007 | Assoc Business Development Exp | 12,125 | 7,044 | 5,081 | |
| 34 | | Total | <u>17,296</u> | <u>12,215</u> | <u>5,081</u> | |

AEP East Companies
 Cost of Service Formula Rate Using Actual/Projected 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 | 99.91% | |
| Effective State Tax Rate | | 6.49% |
| | | |
| Total Effective State Income Tax Rate | | <u>6.49%</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 Activities 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 Actual/Projected FF1 Balances
Worksheet H Supporting Taxes Other than Income
KINGSPORT POWER COMPANY

| Line No. | (A) Account | (B) Total Company NOTE 1 | (C) Property | (D) Labor | (E) Other | (F) Non-Allocable |
|----------|---|--------------------------------|------------------|----------------|----------------|----------------------|
| 1 | Revenue Taxes | | | | | |
| 2 | Gross Receipts Tax | 8,702,000 | | | | 8,702,000 |
| 3 | Real Estate and Personal Property Taxes | | | | | |
| 4 | Real and Personal Property - Kentucky | 1,383,000 | 1,383,000 | | | |
| 5 | Real and Personal Property - Other | 9,800 | 9,800 | | | |
| 6 | Payroll Taxes | | | | | |
| 7 | Federal Insurance Contribution (FICA) | 143,953 | | 143,953 | | |
| 8 | Federal Unemployment Tax | 958 | | 958 | | |
| 9 | State Unemployment Insurance | 310 | | 310 | | |
| 10 | Production Taxes | | | | | |
| 11 | State Severance Taxes | - | | | | - |
| 12 | Miscellaneous Taxes | | | | | |
| 13 | State Business & Occupation Tax | - | | | | - |
| 14 | State Public Service Commission Fees | 648,000 | | | 648,000 | |
| 15 | State Franchise Taxes | 120,000 | | | 120,000 | |
| 16 | State Lic/Registration Fee | - | | | - | |
| 17 | Misc. State and Local Tax | - | | | - | |
| 18 | Sales & Use | - | | | - | |
| 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)) | <u>11,008,021</u> | <u>1,392,800</u> | <u>145,221</u> | <u>768,000</u> | <u>8,702,000</u> |

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 (TCOS, Lns 48 thru 58) | - | 21,808,150 | 95,835,990 | 1,342,444 | 118,986,583 |
| TENNESSEE JURISDICTION | | | | | |
| 23 Percentage of Plant in TENNESSEE JURISDICTION | 0.00% | 100.00% | 100.00% | 100.00% | |
| 24 Net Plant in TENNESSEE JURISDICTION (Ln 22 * Ln 23) | - | 21,808,150 | 95,835,990 | 1,342,444 | 118,986,583 |
| 25 Less: Net Value of Exempted Generation Plant | - | - | - | - | - |
| 26 Taxable Property Basis (Ln 24 - Ln 25) | - | 21,808,150 | 95,835,990 | 1,342,444 | 118,986,583 |
| 27 Relative Valuation Factor | 0.00% | 100.00% | 100.00% | 100.00% | |
| 28 Weighted Net Plant (Ln 26 * Ln 27) | - | 21,808,150 | 95,835,990 | 1,342,444 | |
| 29 General Plant Allocator (Ln 28 / (Total - General Plant)) | 0.00% | 18.54% | 81.46% | -100.00% | |
| 30 Functionalized General Plant (Ln 29 * General Plant) | - | 248,854 | 1,093,590 | (1,342,444) | - |
| 31 Weighted TENNESSEE JURISDICTION Plant (Ln 28 + 30) | - | 22,057,003 | 96,929,580 | (1) | 118,986,583 |
| 32 Functional Percentage (Ln 31/Total Ln 31) | 0.00% | 18.54% | 81.46% | | |
| 33 Functionalized Expense in TENNESSEE JURISDICTION | - | 256,372 | 1,126,628 | | 1,383,000 |
| 34 Total Other Jurisdictions: (Line 5 * Net Plant Allocator) | | 1,793 | | | 9,800 |
| 35 Total Func. Property Taxes (Sum Lns 33, 34) | - | 258,165 | 1,126,628 | | 1,392,800 |

AEP East Companies
Cost of Service Formula Rate Using Actual/Projected 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 | Revenue Taxes | | | |
| 2 | Gross Receipts Tax | 8,702,000 | 8,702,000 | |
| | | | - | |
| | | | - | |
| | | | - | |
| 3 | Real Estate and Personal Property Taxes | | | |
| 4 | Real and Personal Property - Tennessee | 1,383,000 | 1,383,000 | |
| | | | - | |
| | | | - | |
| | | | - | |
| 5 | Real and Personal Property - Other | 9,800 | 9,800 | |
| | | | - | |
| 6 | Payroll Taxes | | | |
| 7 | Federal Insurance Contribution (FICA) | 143,953 | 143,953 | |
| 8 | Federal Unemployment Tax | 958 | 958 | |
| 9 | State Unemployment Insurance | 310 | 310 | |
| | | | - | |
| | | | - | |
| 10 | Production Taxes | | | |
| 11 | State Severance Taxes | - | - | |
| 12 | Miscellaneous Taxes | | | |
| 13 | State Business & Occupation Tax | - | - | |
| | | | - | |
| 14 | State Public Service Commission Fees | 648,000 | 648,000 | |
| | | | - | |
| 15 | State Franchise Taxes | 120,000 | 120,000 | |
| | | | - | |
| | | | - | |
| 16 | State Lic/Registration Fee | - | - | |
| | | | - | |
| | | | - | |
| 17 | Misc. State and Local Tax | - | - | |
| 18 | Sales & Use | - | - | |
| | | | - | |
| 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)) | 11,008,021 | 11,008,021 | |

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 2017 FF1 Balances
Worksheet I RESERVED FOR FUTURE USE
KINGSPORT POWER COMPANY

AEP East Companies
Cost of Service Formula Rate Using 2017 FF1 Balances
Worksheet J Supporting Calculation of PROJECTED PJM RTEP Project Revenue Requirement Billed to Benefiting Zones
KINGSPORT POWER COMPANY

Page 1 of 1

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 (TCOS, ln 169) | | | | 11.49% |
| Project ROE Incentive Adder | | | | |
| ROE with additional basis point incentive | | | | 11.49% |
| Determine R (cost of long term debt, cost of preferred stock and equity percentage is from the TCOS, lns 167 through 169) | | | | |
| | <u>%</u> | <u>Cost</u> | <u>Weighted cost</u> | |
| Long Term Debt | 47.88% | 6.21% | 2.972% | |
| Preferred Stock | 0.00% | 0.00% | 0.000% | |
| Common Stock | 52.12% | 11.49% | 5.989% | |
| | | R = | | 8.960% |

| SUMMARY OF PROJECTED ANNUAL RTEP REVENUE REQUIREMENTS | | | |
|---|------|-------------|-------------------|
| PROJECTED YEAR | 2017 | Rev Require | Incentive Amounts |
| | | - | \$ - |

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

| | |
|-------------------------|------------|
| Rate Base (TCOS, ln 79) | 17,398,341 |
| R (from A. above) | 8.960% |
| Return (Rate Base x R) | 1,558,967 |

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

| | |
|---------------------------------------|-----------|
| Return (from B. above) | 1,558,967 |
| Effective Tax Rate (TCOS, ln 127) | 43.12% |
| Income Tax Calculation (Return x CIT) | 672,300 |
| ITC Adjustment | - |
| Excess Deferred Income Tax | 1,645 |
| Tax Affect of Permanent Differences | 15,136 |
| Income Taxes | 689,081 |

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 (TCOS, ln 1) | 4,326,215 |
| Lease Payments (TCOS, Ln 107) | - |
| Return (TCOS, ln 139) | 1,558,967 |
| Income Taxes (TCOS, ln 138) | 689,081 |
| Annual Revenue Requirement, Less Lease Payments, Return and Taxes | 2,078,167 |

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

| | |
|---|-----------|
| Annual Revenue Requirement, Less Lease Payments, Return and Taxes | 2,078,167 |
| Return (from I.B. above) | 1,558,967 |
| Income Taxes (from I.C. above) | 689,081 |
| Annual Revenue Requirement, with Basis Point ROE increase | 4,326,215 |
| Depreciation (TCOS, ln 112) | 829,764 |
| Annual Rev. Req. w/ Basis Point ROE increase, less Depreciation | 3,496,451 |

C. Determine FCR with hypothetical basis point ROE increase.

| | |
|--|------------|
| Net Transmission Plant (TCOS, ln 49) | 21,808,150 |
| Annual Revenue Requirement, with Basis Point ROE increase | 4,326,215 |
| FCR with Basis Point increase in ROE | 19.84% |
| Annual Rev. Req. w/ Basis Point ROE increase, less Dep. | 3,496,451 |
| FCR with Basis Point ROE increase, less Depreciation | 16.03% |
| FCR less Depreciation (TCOS, ln 10) | 16.03% |
| Incremental FCR with Basis Point ROE increase, less Depreciation | 0.00% |

III. Calculation of Composite Depreciation Rate

| | |
|--|------------|
| Transmission Plant @ Beginning of Rate Year (2017) (P. 206, Ln 58(b)): | 30,922,061 |
| Transmission Plant @ End of Rate Year (2017) (P 207, Ln 58(g)): | 38,587,873 |
| Subtotal | 69,509,934 |
| Average Transmission Plant Balance for 2017 | 34,754,967 |
| Annual Depreciation and Amortization Expense (TCOS, ln 112) | 829,764 |
| Composite Depreciation Rate | 2.39% |
| Depreciable Life for Composite Depreciation Rate | 41.89 |
| Round to nearest whole year | 42 |

AEP East Companies
Cost of Service Formula Rate Using 2017 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 (TCOS, ln 169) | | | 11.49% |
| Project ROE Incentive Adder | | | 0 |
| ROE with additional 0 basis point incentive | | | 11.49% |
| Determine R (cost of long term debt, cost of preferred stock and equity percentage is from the TCOS, lns 167 through 169) | | | |
| | % | Cost | Weighted cost |
| Long Term Debt | 47.88% | 6.21% | 2.972% |
| Preferred Stock | 0.00% | 0.00% | 0.000% |
| Common Stock | 52.12% | 11.49% | 5.989% |
| | | R = | 8.960% |

| SUMMARY OF TRUED-UP ANNUAL REVENUE REQUIREMENTS FOR RTEPPROJECTS | | | |
|--|---------------------------------|-------------|-------------------|
| TRUE-UP YEAR | 2017 | Rev Require | Incentive Amounts |
| | As Projected in Prior Year WS J | | \$ - |
| | Actual after True-up | | \$ - |
| | True-up of ARR For 2017 | - | - |

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

| | |
|-------------------------|------------|
| Rate Base (TCOS, ln 79) | 17,398,341 |
| R (from A. above) | 8.960% |
| Return (Rate Base x R) | 1,558,967 |

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

| | |
|---------------------------------------|-----------|
| Return (from B. above) | 1,558,967 |
| Effective Tax Rate (TCOS, ln 127) | 43.12% |
| Income Tax Calculation (Return x CIT) | 672,300 |
| ITC Adjustment | - |
| Excess Deferred Income Tax | 1,645 |
| Tax Affect of Permanent Differences | 15,136 |
| Income Taxes | 689,081 |

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 (TCOS, ln 1) | 4,326,215 |
| Lease Payments (TCOS, ln 107) | - |
| Return (TCOS, ln 139) | 1,558,967 |
| Income Taxes (TCOS, ln 138) | 689,081 |
| Annual Revenue Requirement, Less Lease Payments, Return and Taxes | 2,078,167 |

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

| | |
|---|-----------|
| Annual Revenue Requirement, Less Lease Payments, Return and Taxes | 2,078,167 |
| Return (from I.B. above) | 1,558,967 |
| Income Taxes (from I.C. above) | 689,081 |
| Annual Revenue Requirement, with 0 Basis Point ROE increase | 4,326,215 |
| Depreciation (TCOS, ln 112) | 829,764 |
| Annual Rev. Req, w/ 0 Basis Point ROE increase, less Depreciation | 3,496,451 |

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

| | |
|---|------------|
| Net Transmission Plant (TCOS, ln 49) | 21,808,150 |
| Annual Revenue Requirement, with 0 Basis Point ROE increase | 4,326,215 |
| FCR with 0 Basis Point increase in ROE | 19.84% |

| | |
|--|-----------|
| Annual Rev. Req, w / 0 Basis Point ROE increase, less Dep. | 3,496,451 |
| FCR with 0 Basis Point ROE increase, less Depreciation | 16.03% |
| FCR less Depreciation (TCOS, ln 10) | 16.03% |
| Incremental FCR with 0 Basis Point ROE increase, less Depreciation | 0.00% |

III. Calculation of Composite Depreciation Rate

| | |
|--|------------|
| Transmission Plant @ Beginning of Rate Year (2017) (P. 206, Ln 58(b)): | 30,922,061 |
| Transmission Plant @ End of Rate Year (2017) (P. 207, Ln 58(g)): | 38,587,873 |
| Subtotal | 69,509,934 |
| Average Transmission Plant Balance for 2017 | 34,754,967 |
| Annual Depreciation and Amortization Expense (TCOS, ln 112) | 829,764 |
| Composite Depreciation Rate | 2.39% |
| Depreciable Life for Composite Depreciation Rate | 41.89 |
| Round to nearest whole year | 42 |

KPCo Worksheet K - ATRR TRUE-UP Calculation for PJM Projects Charged to Benefiting Zones

IV. Determine the Revenue Requirement, and Additional Revenue Requirement for facilities receiving incentives.

A. Base Plan Facilities

Facilities receiving incentives accepted by FERC in Docket No. (e.g. ER05-925-000)

Project Description:

| | | | |
|--------------------|-------------|--------------|-------------------|
| 0 | Rev Require | W Incentives | Incentive Amounts |
| Prior Yr Projected | #N/A | #N/A | #N/A |
| Prior Yr True-Up | #N/A | #N/A | #N/A |
| True-Up Adjustment | #N/A | #N/A | #N/A |

| Details | | Current Year | 0 |
|----------------------|------|---|--------|
| Investment | | | |
| Service Year (yyyy) | 2015 | ROE increase accepted by FERC (Basis Points) | - |
| Service Month (1-12) | 12 | FCR w/o incentives, less depreciation | 16.03% |
| Useful life | 42 | FCR w/incentives approved for these facilities, less dep. | 16.03% |
| CIAC (Yes or No) | No | Annual Depreciation Expense | - |

TRUE UP OF PROJECT REVENUE REQUIREMENT FOR PRIOR YEAR:
CUMULATIVE HISTORY OF TRUED-UP ANNUAL REVENUE REQUIREMENTS:
INPUT TRUE-UP ARR (WITH & WITHOUT INCENTIVES) FROM EACH PRIOR YEAR
TEMPLATE BELOW TO MAINTAIN HISTORY OF TRUED-UP ARRS OVER THE
LIFE OF THE PROJECT.

| Investment Year | Beginning Balance | Depreciation Expense | Ending Balance | Average Balance | RTEP Rev. Req't. w/o Incentives | RTEP Rev. Req't. with Incentives ** | Incentive Rev. Requirement ## | RTEP Projected Rev. Req't. From Prior Year WS J w/o Incentives | RTEP Rev Req't True-up w/o Incentives | RTEP Projected Rev. Req't. From Prior Year WS J with Incentives ** | RTEP Rev Req't True-up with Incentives ** | True-up of Incentive with Incentives ** |
|-----------------|-------------------|----------------------|----------------|-----------------|---------------------------------|-------------------------------------|-------------------------------|--|---------------------------------------|--|---|---|
| 2015 | - | - | - | - | - | - | - | - | - | - | - | - |
| 2016 | - | - | - | - | - | - | - | - | - | - | - | - |
| 2017 | - | - | - | - | - | - | - | - | - | - | - | - |
| 2018 | - | - | - | - | - | - | - | - | - | - | - | - |
| 2019 | - | - | - | - | - | - | - | - | - | - | - | - |
| 2020 | - | - | - | - | - | - | - | - | - | - | - | - |
| 2021 | - | - | - | - | - | - | - | - | - | - | - | - |
| 2022 | - | - | - | - | - | - | - | - | - | - | - | - |
| 2023 | - | - | - | - | - | - | - | - | - | - | - | - |
| 2024 | - | - | - | - | - | - | - | - | - | - | - | - |
| 2025 | - | - | - | - | - | - | - | - | - | - | - | - |
| 2026 | - | - | - | - | - | - | - | - | - | - | - | - |
| 2027 | - | - | - | - | - | - | - | - | - | - | - | - |
| 2028 | - | - | - | - | - | - | - | - | - | - | - | - |
| 2029 | - | - | - | - | - | - | - | - | - | - | - | - |
| 2030 | - | - | - | - | - | - | - | - | - | - | - | - |
| 2031 | - | - | - | - | - | - | - | - | - | - | - | - |
| 2032 | - | - | - | - | - | - | - | - | - | - | - | - |
| 2033 | - | - | - | - | - | - | - | - | - | - | - | - |
| 2034 | - | - | - | - | - | - | - | - | - | - | - | - |
| 2035 | - | - | - | - | - | - | - | - | - | - | - | - |
| 2036 | - | - | - | - | - | - | - | - | - | - | - | - |
| 2037 | - | - | - | - | - | - | - | - | - | - | - | - |
| 2038 | - | - | - | - | - | - | - | - | - | - | - | - |
| 2039 | - | - | - | - | - | - | - | - | - | - | - | - |
| 2040 | - | - | - | - | - | - | - | - | - | - | - | - |
| 2041 | - | - | - | - | - | - | - | - | - | - | - | - |
| 2042 | - | - | - | - | - | - | - | - | - | - | - | - |
| 2043 | - | - | - | - | - | - | - | - | - | - | - | - |
| 2044 | - | - | - | - | - | - | - | - | - | - | - | - |
| 2045 | - | - | - | - | - | - | - | - | - | - | - | - |
| 2046 | - | - | - | - | - | - | - | - | - | - | - | - |
| 2047 | - | - | - | - | - | - | - | - | - | - | - | - |
| 2048 | - | - | - | - | - | - | - | - | - | - | - | - |
| 2049 | - | - | - | - | - | - | - | - | - | - | - | - |
| 2050 | - | - | - | - | - | - | - | - | - | - | - | - |
| 2051 | - | - | - | - | - | - | - | - | - | - | - | - |
| 2052 | - | - | - | - | - | - | - | - | - | - | - | - |
| 2053 | - | - | - | - | - | - | - | - | - | - | - | - |
| 2054 | - | - | - | - | - | - | - | - | - | - | - | - |
| 2055 | - | - | - | - | - | - | - | - | - | - | - | - |
| 2056 | - | - | - | - | - | - | - | - | - | - | - | - |
| 2057 | - | - | - | - | - | - | - | - | - | - | - | - |
| 2058 | - | - | - | - | - | - | - | - | - | - | - | - |
| 2059 | - | - | - | - | - | - | - | - | - | - | - | - |
| 2060 | - | - | - | - | - | - | - | - | - | - | - | - |
| 2061 | - | - | - | - | - | - | - | - | - | - | - | - |
| 2062 | - | - | - | - | - | - | - | - | - | - | - | - |
| 2063 | - | - | - | - | - | - | - | - | - | - | - | - |
| 2064 | - | - | - | - | - | - | - | - | - | - | - | - |
| 2065 | - | - | - | - | - | - | - | - | - | - | - | - |
| 2066 | - | - | - | - | - | - | - | - | - | - | - | - |
| 2067 | - | - | - | - | - | - | - | - | - | - | - | - |
| 2068 | - | - | - | - | - | - | - | - | - | - | - | - |
| 2069 | - | - | - | - | - | - | - | - | - | - | - | - |
| 2070 | - | - | - | - | - | - | - | - | - | - | - | - |
| 2071 | - | - | - | - | - | - | - | - | - | - | - | - |
| 2072 | - | - | - | - | - | - | - | - | - | - | - | - |
| 2073 | - | - | - | - | - | - | - | - | - | - | - | - |
| 2074 | - | - | - | - | - | - | - | - | - | - | - | - |
| Project Totals | | | | | | | | | | | | |

** This is the total amount that needs to be reported to PJM for billing to all regions.

This is the calculation of additional incentive revenue on projects deemed by the FERC to be eligible for an incentive return. This additional incentive requirement is applicable for the life of this specific project. Each year the revenue requirement calculated for PJM should be incremented by the amount of the incentive revenue calculated for that year on this project.

AEP East Companies
Cost of Service Formula Rate Using 2017 FF1 Balances
Worksheet L Reserved for Future Use
KINGSPORT POWER COMPANY

**Worksheet M Supporting Calculation of Capital Structure and Weighted Average Cost of Capital
Based on Average of Balances At 12/31/2016 & 12/31/2017**

| (A) | (B) | (C) Balances @ 12/31/2017 | (D) Balances @ 12/31/2016 | (E) Average |
|--|---|---------------------------------|---------------------------------|-------------------|
| Development of Average Balance of Common Equity | | | | |
| 1 | Proprietary Capital (112.16.c&d) | 44,199,314 | 37,446,729 | 40,823,022 |
| 2 | Less Preferred Stock (Ln 54 Below) | 0 | 0 | - |
| 3 | Less Account 216.1 (112.12.c&d) | - | - | - |
| 4 | Less Account 219.1 (112.15.c&d) | - | - | - |
| 5 | Average Balance of Common Equity | 44,199,314 | 37,446,729 | 40,823,022 |

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

| | | | | |
|----|---|-------------------|-------------------|-------------------|
| 6 | Bonds (112.18.c&d) | - | - | - |
| 7 | Less: Reacquired Bonds (112.19.c&d) | - | - | - |
| 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) | 35,000,000 | - | 17,500,000 |
| 10 | Less: Fair Value Hedges (See Note on Ln 12 below) | - | - | - |
| 11 | Total Average Debt | 55,000,000 | 20,000,000 | 37,500,000 |

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)**

Annual Interest Expense for 2017

| | | | |
|----|--|--|------------------|
| 14 | Interest on Long Term Debt (256-257.33.i) | | 2,327,518 |
| 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 33 below. | | - |
| 16 | Plus: Allowed Hedge Recovery From Ln 38 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 | Total Interest Expense (Ln 14 + Ln 17 + Ln 18 - Ln 19 - Ln 20) | | 2,327,518 |
| 22 | Average Cost of Debt for 2017 (Ln 21/Ln 11) | | 6.21% |

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 2017 | Less Excludable Amounts (See NOTE on Line 23) | Net Includable Hedge Amount | Amortization Period | |
|--|----------------------------------|---|-----------------------------|-------------------------------|------------------|
| | | | | Remaining Unamortized Balance | Beginning Ending |
| 24 Unsecured Notes | 0 | - | - | 0 | |
| 25 Unsecured Notes | | | | | |
| 26 Unsecured Notes | | | | | |
| 27 Unsecured Notes | | | | | |
| 28 Unsecured Notes | | | | | |
| 29 Unsecured Notes | | | | | |
| 30 Unsecured Notes | | | | | |
| 31 Unsecured Notes | | | | | |
| 32 Unsecured Notes | | | | | |
| 33 Total Hedge Amortization | - | - | - | | |
| 34 Hedge Gain or Loss Prior to Application of Recovery Limit (Sum of Lines 24 to 32) | | | - | | |
| 35 Total Average Capital Structure Balance for 2017 (TCOS, Ln 170) | | | 78,323,022 | | |
| 36 Financial Hedge Recovery Limit - Five Basis Points of Total Capital | | | 0.0005 | | |
| 37 Limit of Recoverable Amount | | | 39,162 | | |
| 38 Recoverable Hedge Amortization (Lesser of Ln 34 or Ln 37) | | | - | | |

Development of Cost of Preferred Stock

| Preferred Stock | Average | |
|--|-----------|-----------|
| 39 4.125% Series - 100 - Dividend Rate (p. 250-251. 9.a) | 4.125% | 4.125% |
| 40 4.125% Series - 100 - Par Value (p. 250-251. 9.c) | \$ 100.00 | \$ 100.00 |
| 41 4.125% Series - 100 - Shares O/S (p.250-251. 9.e) | - | - |
| 42 4.125% Series - 100 - Monetary Value (Ln 40 * Ln 41) | - | - |
| 43 4.125% Series - 100 - Dividend Amount (Ln 39 * Ln 42) | - | - |
| 44 4.12% Series - 100 - Dividend Rate (p. 250-251 11.a) | 4.120% | 4.120% |
| 45 4.12% Series - 100 - Par Value (p. 250-251 11.c) | \$ 100.00 | \$ 100.00 |
| 46 4.12% Series - 100 - Shares O/S (p.250-251 11.e) | - | - |
| 47 4.12% Series - 100 - Monetary Value (Ln 45 * Ln 46) | - | - |
| 48 4.12% Series - 100 - Dividend Amount (Ln 44 * Ln 47) | - | - |
| 49 4.56% Series - 100 - Dividend Rate (p. 250-251. 10a) | 4.560% | 4.560% |
| 50 4.56% Series - 100 - Par Value (p. 250-251. 10c) | \$ 100.00 | \$ 100.00 |
| 51 4.56% Series - 100 - Shares O/S (p.250-251 10.e) | - | - |
| 52 4.56% Series - 100 - Monetary Value (Ln 50 * Ln 51) | - | - |
| 53 4.56% Series - 100 - Dividend Amount (Ln 49 * Ln 52) | - | - |
| 54 Balance of Preferred Stock (Lns 42, 47, 52) | - | - |
| 55 Dividends on Preferred Stock (Lns 43, 48, 53) | - | - |
| 56 Average Cost of Preferred Stock (Ln 55/54) | 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 Actual/Projected 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 functionalized 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> | |

AEP East Companies
Cost of Service Formula Rate Using Actual/Projected FF1 Balances
Worksheet O - Calculation of Postemployment Benefits Other than Pensions Expenses Allocable to Transmission Service
KINGSPORT POWER COMPANY

1 Total AEP East Operating Company PBOP Settlement Amount -

Allocation of PBOP Settlement Amount for 2017

| Line# | Company | Total Company Amount | | | | | | |
|-------|----------------------------|--|-------------------------------------|--|-----------------------------|--------------------|-------------------|---|
| | | Actual Expense (Including AEPSC Billed OPEB) | Ratio of Company Actual to Total | Allocation of PBOB Recovery Allowance | Labor Allocator for 2017 | Actual Expense | Allowable Expense | One Year Functional Expense (Over)/Under |
| | | (A) | (B)=(A)/Total (A) | (C)=(B) * 0 | (D) | (E)=(A) * (D) | (F)=(C) * (D) | (G)=(E) - (F) |
| | | (Line 14) | | | | | | |
| 2 | APCo | (16,200,897) | 36.57% | - | 8.052% | (1,304,430) | - | (1,304,430) |
| 3 | I&M | (11,509,436) | 25.98% | - | 5.095% | (586,456) | - | (586,456) |
| 4 | KPCo | (3,481,273) | 7.86% | - | 6.818% | (237,367) | - | (237,367) |
| 5 | KNGP | (378,229) | 0.85% | - | 9.691% | (36,653) | - | (36,653) |
| 6 | OPCo | (11,964,459) | 27.01% | - | 15.466% | (1,850,380) | - | (1,850,380) |
| 7 | WPCo | (769,194) | 1.74% | - | 2.347% | (18,050) | - | (18,050) |
| 8 | Sum of Lines 2 to 7 | (44,303,488) | | - | | (4,033,336) | - | (4,033,336) |

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

| | APCo | I&M | KPCo | KNGSPT | OPCo | WPCo | AEP East Total |
|--|--------------|--------------|-------------|-----------|--------------|-----------|----------------|
| 9 Direct Charged PBOP Expense per Actuarial Report | (15,553,365) | (11,620,295) | (3,566,295) | (334,834) | (11,037,888) | (417,243) | (42,529,920) |
| 10 Additional PBOP Ledger Entries (from Company Records) | 465,717 | 918,897 | 369,757 | 4,572 | 135,109 | (290,243) | |
| 11 Medicare Subsidy | - | - | - | - | - | - | - |
| 12 Net Company Expense (Ln 9 + Ln 10 + Ln 11) | (15,087,648) | (10,701,398) | (3,196,538) | (330,262) | (10,902,779) | (707,486) | (40,926,111) |
| 13 PBOP Expenses From AEP Service Corporation (from Company Records) | (1,113,249) | (808,038) | (284,735) | (47,967) | (1,061,680) | (61,708) | (3,377,377) |
| 14 Company PBOP Expense (Ln 12 + Ln 13) | (16,200,897) | (11,509,436) | (3,481,273) | (378,229) | (11,964,459) | (769,194) | (44,303,488) |

For the rate year 2017 and adjusted every four years thereafter, using the annual actuarial report produced for that year, filed as part of the informational filing, Worksheet O will be used to adjust PBOP costs for the next four years (i.e. 2017, 2018, 2019, 2020). If the annual actuarial report projects PBOP costs during the next four years, taken together with the then current cumulative PBOP cost/allowance position, will, absent a change in the PBOP allowance, cause the AEP Companies to over or under collect their cumulative PBOP costs by more than 20% of the projected next four year's total cost, the PBOP allowance shall be adjusted. Worksheet O will be used in the process of updating the PBOP allowance determining (a) the level of cumulative over or under collections during the period since the PBOP allowance was last set, including carrying costs based on the weighted average cost of capital ("WACC") each year from the actual formula rate; (b) the cumulative net present value of projected PBOP costs during the next four years, as estimated by the then current actuarial report, assuming a discount rate equal to the actual formula rate weighted average cost of capital for the prior calendar year; and (c) the cumulative net present value of continued collections over the next four years based on the then effective PBOP allowance, assuming a discount rate equal to the prior year WACC. If the absolute value of (a)+(b)-(c) exceeds 20% of (b), then the PBOP allowance used in the formula rate calculation shall be changed to the value that will cause the projected result (a)+(b)-(c) to equal zero. If the projected over or under collection during the next four years will be less than 20% of (b), then the PBOP allowance will continue in effect for the next four years at the then effective rate. If it is determined through this procedure AEP Companies will over-recover or under-recover actual PBOP expenses by more than 20% over the subsequent four-year period, AEP shall make a filing under FPA Section 205 to change the PBOP expense stated in the formula rate shown on Worksheet O. No other changes to the formula rate may be included in that filing.

AEP EAST COMPANIES
PJM FORMULA RATE
WORKSHEET P - TRANSMISSION DEPRECIATION RATES
EFFECTIVE AS OF 09/1/2016
FOR SINGLE JURISDICTION COMPANIES
KINGSPORT POWER COMPANY

| | PLANT ACCT. | RATES Note 1 |
|---|------------------------|-------------------------|
| <i>TRANSMISSION PLANT</i> | | |
| Structures & Improvements | 352.0 | 1.04% |
| Station Equipment | 353.0 | 1.49% |
| Towers & Fixtures | 354.0 | 0.12% |
| Poles & Fixtures | 355.0 | 2.14% |
| Overhead Conductors | 356.0 | 0.77% |
| Underground Conduit | 357.0 | Note 2 |
| Underground Conductors | 358.0 | Note 2 |
| Composite Transmission Depreciation Rate | | 1.46% |

Reference:

Note 1: Rates Approved In Tennessee Regulatory Authority Docket No. 16-00001.

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

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.

AEP East Companies
Cost of Service Formula Rate Using Actual/Projected FF1 Balances
Worksheet Q - True-up With Interest

| | | | | |
|---|---|---|---|---|
| Reconciliation Revenue Requirement For Year 2018 Available May 25, 2019 \$16,511,590 | - | 2018 Revenue Requirement Forecast by October 31, 2017 \$15,216,438 | = | True-up Adjustment - Over (Under) Recovery (\$1,295,152) |
|---|---|---|---|---|

| Interest Rate on Amount of Refunds or Surcharges from 35.19a | Over (Under) Recovery Plus Interest | Average Monthly Interest Rate | Months | Calculated Interest | Amortization | Surcharge (Refund) Owed |
|---|--|----------------------------------|--------|---------------------|--------------|----------------------------|
|---|--|----------------------------------|--------|---------------------|--------------|----------------------------|

0.2780%

An over or under collection will be recovered prorata over 2018, held for 2019 and returned prorata over 2020

Calculation of Interest

| | | | | | Monthly | |
|--------------------------|-----------|-----------|---------|----|---------|-----------|
| January | Year 2018 | (107,929) | 0.2780% | 12 | 3,601 | 111,530 |
| February | Year 2018 | (107,929) | 0.2780% | 11 | 3,300 | 111,230 |
| March | Year 2018 | (107,929) | 0.2780% | 10 | 3,000 | 110,930 |
| April | Year 2018 | (107,929) | 0.2780% | 9 | 2,700 | 110,630 |
| May | Year 2018 | (107,929) | 0.2780% | 8 | 2,400 | 110,330 |
| June | Year 2018 | (107,929) | 0.2780% | 7 | 2,100 | 110,030 |
| July | Year 2018 | (107,929) | 0.2780% | 6 | 1,800 | 109,730 |
| August | Year 2018 | (107,929) | 0.2780% | 5 | 1,500 | 109,430 |
| September | Year 2018 | (107,929) | 0.2780% | 4 | 1,200 | 109,130 |
| October | Year 2018 | (107,929) | 0.2780% | 3 | 900 | 108,829 |
| November | Year 2018 | (107,929) | 0.2780% | 2 | 600 | 108,529 |
| December | Year 2018 | (107,929) | 0.2780% | 1 | 300 | 108,229 |
| | | | | | 23,403 | 1,318,555 |
| | | | | | Annual | |
| January through December | Year 2019 | 1,318,555 | 0.2780% | 12 | 43,987 | 1,362,542 |

Over (Under) Recovery Plus Interest Amortized and Recovered Over 12 Months

| | | | | | Monthly | |
|-----------|-----------|-------------|---------|--|---------|-----------|
| January | Year 2020 | (1,362,542) | 0.2780% | | 3,788 | 1,250,723 |
| February | Year 2020 | (1,250,723) | 0.2780% | | 3,477 | 1,138,592 |
| March | Year 2020 | (1,138,592) | 0.2780% | | 3,165 | 1,026,150 |
| April | Year 2020 | (1,026,150) | 0.2780% | | 2,853 | 913,396 |
| May | Year 2020 | (913,396) | 0.2780% | | 2,539 | 800,327 |
| June | Year 2020 | (800,327) | 0.2780% | | 2,225 | 686,945 |
| July | Year 2020 | (686,945) | 0.2780% | | 1,910 | 573,247 |
| August | Year 2020 | (573,247) | 0.2780% | | 1,594 | 459,234 |
| September | Year 2020 | (459,234) | 0.2780% | | 1,277 | 344,903 |
| October | Year 2020 | (344,903) | 0.2780% | | 959 | 230,254 |
| November | Year 2020 | (230,254) | 0.2780% | | 640 | 115,287 |
| December | Year 2020 | (115,287) | 0.2780% | | 320 | 0 |
| | | | | | 24,746 | |

| | |
|----------------------------------|-------------|
| True-Up Adjustment with Interest | 1,387,289 |
| Less Over (Under) Recovery | (1,295,152) |
| Total Interest | 92,137 |

Note 1: The interest rate to be applied to the over recovery or under recovery amounts will be determined using the average monthly FERC interest rate (as determined pursuant to 18 C.F.R. Section 35.19a) for the twenty (20) months from the beginning of the rate year being true-up through August 31 of the following year.