

**BEFORE THE TENNESSEE REGULATORY AUTHORITY AT
NASHVILLE, TENNESSEE**

January 17, 2006

IN RE:)	
)	
APPLICATION OF APPALACHIAN POWER)	DOCKET NO.
COMPANY SEEKING THE APPROVAL OF)	05-00313
THE TENNESSEE REGULATORY AUTHORITY)	
FOR CERTAIN 2006 FINANCING PROGRAMS)	

ORDER APPROVING FINANCING TRANSACTIONS

This matter came before Chairman Ron Jones, Director Pat Miller and Director Sara Kyle of the Tennessee Regulatory Authority (the "Authority" or "TRA"), the voting panel assigned to this docket, at the regularly scheduled Authority Conference held on January 10, 2006 for consideration of the *Application of Appalachian Power Company* ("*Application*") requesting approval, pursuant to Tenn. Code Ann. § 65-4-109 (2004), of financing transactions involving the issuance of securities, assumption of obligations, and entry of agreements as described in the *Application*.

Application

Appalachian Power Company ("Appalachian") is a Virginia corporation with its principal offices located in Roanoke, Virginia. Although the majority of Appalachian's customers are located in Virginia, Appalachian is qualified to transact business in Tennessee and provides power to Kingsport Power Company.

By orders dated November 3, 2005 and December 8, 2005, the Virginia State Corporation Commission approved the proposed transactions subject to certain limitations and requirements.¹

Application

In its *Application*, filed with the TRA on November 15, 2005, Appalachian requests approval from the TRA to issue and sell, from time to time through December 31, 2006, secured and unsecured promissory notes ("Notes") in the aggregate principal amount up to \$700,000,000. The Notes may be issued in the form of either (1) First Mortgage Bonds, to be secured by Appalachian's Mortgage and Deed of Trust, as amended and supplemented by one or more new Supplemental Indentures, or (2) senior notes or other unsecured promissory notes pursuant to Indentures and company orders. Appalachian filed exhibits with its *Application* showing the general form of the proposed Notes and associated documents.

Appalachian also seeks approval to issue up to \$100,000,000 out of the \$700,000,000 aggregate principal of the Notes to its parent company, American Electric Power Company, Inc. ("AEP"), through one or more unsecured notes. In the *Application*, Appalachian affirmed that the interest rates on any Notes issued to AEP would parallel AEP's cost of capital, in accordance with the Public Utility Holding Company Act of 1935, as amended. In addition, Appalachian will sell Notes to AEP only if the effective cost of the Notes is lower than or equal to the effective cost of an unsecured Note of similar terms and conditions sold to non-affiliated entities.

In association with these transactions, Appalachian plans to utilize interest rate management techniques and to enter into Interest Rate Management Agreements ("IRMAs").

¹ See *Application of Appalachian Power Company for Authority to Issue Securities under Chapter 3 of Title 56 of the Code of Virginia*, Virginia State Corporation Commission Case No. PUE-2005-00088, *Order Granting Authority* (November 3, 2005), attached as Exhibit 1, *Application of Appalachian Power Company for Authority to Incur Long-Term Debt*, Virginia State Corporation Commission Case No. PUE-2005-00102, *Order Granting Authority* (December 8, 2005), attached as Exhibit 2

The TRA previously authorized Appalachian's use of these methods,² and Appalachian requests that the TRA continue the authorization through December 2006. According to the *Application*, the aggregate notional amount of Appalachian's outstanding IRMAs will not exceed twenty-five percent of Appalachian's existing debt obligations.

Appalachian states that it will use the proceeds from issuance of the Notes (1) to redeem, directly or indirectly, long-term debt, (2) to refund, directly or indirectly, preferred stock, (3) to repay short-term debt at or prior to maturity, (4) to reimburse Appalachian's treasury for construction program expenditures and (5) for other proper corporate purposes. Appalachian further asserts that it will complete the transactions in compliance with all applicable indenture, charter, and other standards relating to debt and equity securities and capitalization ratios of Appalachian.

Appalachian further proposes to obtain financing for portions of environmental and pollution control facilities at Appalachian's Mountaineer Generating Station in Mason County, West Virginia. Appalachian requests authority to assume certain obligations under various agreements in an aggregate principal amount not to exceed \$125,000,000 in connection with the proposed issuance of one or more series of Solid Waste Disposal Facility Bonds ("SWDF Bonds") to be issued by the West Virginia Economic Development Authority ("WV Authority") on or prior to December 31, 2006. The proceeds of the SWDF Bonds would be loaned to Appalachian by the WV Authority, pursuant to one or more loan agreements ("Loan Agreements") between the WV Authority and Appalachian, to provide financing for portions of Appalachian's environmental and pollution control facilities. Under the terms of the Loan Agreements, Appalachian would assume the obligation to pay the principal, interest and any

² See *In re Petition of Appalachian Power Company for Financing up to \$950,000,000 through December 31, 2005*, Docket No. 04-00371, *Order Approving Financing Transactions* (January 10, 2005)

premium on the SWDF Bonds. Appalachian also may enter into one or more guarantee or bond issuance agreements assigned to the Trustee to guarantee repayment of any part of its obligations under the SWDF Bonds.

Appalachian affirms that it will not agree, without further Order of the TRA, to the issuance of any series of the SWDF Bonds if (1) the stated maturity of any such bonds shall be more than forty (40) years, (2) the fixed rate of interest to be borne by any such bonds shall exceed 8% or the initial rate of a variable-interest-rate bond shall exceed 8%, (3) the discount from the initial public offering price of any such bond shall exceed 5% of the principal amount thereof or (4) the initial public offering price of any such bond shall be less than 95% of the principal amount therefore.

Statutory Framework

Tenn. Code Ann. § 65-4-109 (2004) provides:

No public utility shall issue any stocks, stock certificates, bonds, debentures, or other evidences of indebtedness payable in more than one (1) year from the date thereof, until it shall have first obtained authority from the [TRA] for such proposed issue. It shall be the duty of the [TRA] after hearing to approve any such proposed issue maturing more than one (1) year from the date thereof upon being satisfied that the proposed issue, sale and delivery is to be made in accordance with law and the purpose of such be approved by the [TRA].

January 10, 2006 Authority Conference

At the January 10, 2006 Authority Conference, the panel voted unanimously to approve the *Application* and made the following findings:

1. The proposed transactions are subject to approval pursuant to Tenn. Code Ann. § 65-4-109 (2004).
2. The proposed transactions are being made in accordance with the laws enforceable by the TRA.

3. The purpose of the proposed transactions is in the public interest because, based on Appalachian's assertions, the funds from the transactions will be used to redeem long-term debt, refund preferred stock, repay short-term debt, reimburse Appalachian's treasury for construction costs and finance environmental and pollution control projects on a tax-exempt basis.

The panel further voted to make the approval subject to the same conditions and filing requirements as set forth in the orders of the Virginia State Corporation Commission in Case Nos. PUE-2005-00088 and PUE-2005-00102.

IT IS THEREFORE ORDERED THAT:

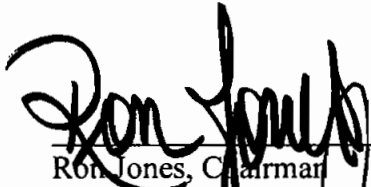
1. Appalachian Power Company is authorized to issue and sell, from time to time through December 31, 2006, Notes in an aggregate principal amount up to \$700,000,000, for the purposes and under the terms and conditions set forth in its *Application*.

2. Appalachian is authorized to assume obligations through the various types of agreements described in its *Application* related to the SWDF Bonds issuance, for the purposes set forth in its *Application*.


3. Appalachian shall comply with the additional conditions set forth in the order of the Virginia State Corporation Commission dated November 3, 2005 in Case No. PUE-2005-00088 and the order of the Virginia State Corporation Commission dated December 8, 2005 in Case No. PUE-2005-00102.

4. Appalachian shall file in this Docket copies of any reports that it is required to provide to the Virginia State Corporation Commission as well as copies of any petitions filed with the SEC and any subsequent order issued by the SEC related to this Docket.

5. The authorization and approval given hereby shall not be used by any party, including, but not limited to, any lending party, for the purpose of inferring an analysis or assessment of the risks involved. Nothing contained herein creates or is intended to create any liability on the part of the Tennessee Regulatory Authority, the State of Tennessee, or any political subdivision thereof for the transaction approved herein.



Ron Jones, Chairman



Pat Miller, Director



Sara Kyle, Director

COMMONWEALTH OF VIRGINIA
STATE CORPORATION COMMISSION

AT RICHMOND, NOVEMBER 3, 2005

APPLICATION OF

APPALACHIAN POWER COMPANY

CASE NO. PUE-2005-00088

For authority to issue securities under
Chapter 3 of Title 56 of the Code of
Virginia

2005-11-3 P 2:24

URGENT COMM

ORDER GRANTING AUTHORITY

On October 18, 2005, Appalachian Power Company ("APCO" or "Applicant"), filed an application with the State Corporation Commission ("Commission") requesting authority to issue securities under Chapter 3 of Title 56 of the Code of Virginia ("Code"). Applicant paid the requisite fee of \$250.

Applicant requests authority to assume certain obligations and to enter into various agreements to support the issuance of up to \$125,000,000 of tax-exempt Solid Waste Disposal Facility Bonds ("SWDF Bonds") by the West Virginia Economic Development Authority (the "Authority"), pursuant to one or more indentures ("Indenture") between the Authority and a Trustee. Proceeds from the issuance of the SWDF Bonds would be loaned by the Authority to APCO, pursuant to one or more loan agreements ("Loan Agreement") between the Authority and APCO, to provide financing for portions of Applicant's environmental and pollution control facilities at its Mountain Generating Station in Mason County, West Virginia. Under the terms of the Loan Agreement, Applicant would assume the obligation to pay the principal, interest, and any premium on the SWDF Bonds. In addition, Applicant may enter into one or more guarantee agreements, bond insurance agreements and other similar arrangements assigned to the Trustee to guarantee repayment of any part of the related obligations under one or more series of SWDF Bonds.

To obtain the most advantageous financing based on market conditions at the time of issuance, Applicant requests broad authority to negotiate terms and conditions of the SWDF Bonds to be assumed by APCO. The SWDF Bonds will be sold in one or more underwritten public offerings, negotiated sales, or private placement transactions. The SWDF Bonds may be issued as fixed rate or variable rate debt. However, no SWDF Bonds will be issued with a fixed rate in excess of 8.0% or with an initial variable rate in excess of 8.0%. The stated maturity on any SWDF Bonds will not exceed forty (40) years. Any discount from the initial offering price of SWDF Bonds will not exceed 5% of the principal amount.

If a variable rate option is chosen, the SWDF Bonds may include provisions to convert to other interest rate modes, including a fixed rate of interest. In addition, the SWDF Bonds may include a tender purchase provision that would require Applicant to enter into one or more remarketing agreements ("Remarketing Agreement") with one or more remarketing agents. To provide immediate funding to pay for bonds tendered for purchase under its Remarketing Agreement, Applicant may also need to enter into one or more liquidity or credit facilities ("Bank Facility") with one or more banks. In conjunction, APCO may also be required to execute and deliver to the bank a note evidencing its obligation under the Bank Facility.

In lieu of or in addition to a Bank Facility, Applicant may utilize and replace one or more alternative credit facilities ("Alternative Facility") to provide credit support for variable rate SWDF Bonds. An Alternative Facility may be used to obtain credit support under better terms and conditions than a Bank Facility or to provide additional liquidity to enhance the marketability of variable rate SWDF Bonds. Alternative Facility providers may include one or more banks, insurance companies, or other financial institutions. An Alternative Facility may be in the form of a letter of credit, revolving credit agreement, bond purchase agreement, or other similar arrangement.

Applicant estimates that issuance costs for the SWDF Bonds will be approximately \$3,218,250. Finally, Applicant requests authority to enter into one or more interest rate hedging arrangements ("Hedge Agreements") from time to time through December 31, 2006. The

purpose of the Hedge Agreements would be to protect against future interest rate movements when the SWDF Bonds are issued. The Hedge Agreements may be in the form of treasury lock agreements, forward-starting interest rate swaps, treasury put options or interest rate collar agreements. The aggregate principal amount of all Hedge Agreements will not exceed the corresponding amount of SWDF Bonds, up to \$125,000,000.

THE COMMISSION, upon consideration of the application and having been advised by Staff, is of the opinion and finds that approval of the application will not be detrimental to the public interest. Accordingly,

IT IS ORDERED THAT:

1) Applicant is hereby authorized to assume the types of obligations and enter into the various types of agreements requested in its application for the purpose of supporting the issuance and guaranteeing the repayment of up to \$125,000,000 of one or more series of SWDF Bonds issued by the Authority on behalf of APCO in the manner and for the purposes as set forth in its application, through the period ending December 31, 2006.

2) Applicant shall submit a Preliminary Report of Action within ten (10) days after the issuance of any securities pursuant to Ordering Paragraph (1), to include the type of security, the issuance date, the amount issued, the interest rate, the maturity date, and a brief explanation of reasons for the term of maturity chosen.

3) Within sixty (60) days after the end of each calendar quarter in which any of the SWDF Bonds are issued or supporting arrangements are entered into pursuant to Ordering Paragraph (1), Applicant shall file with the Commission a detailed Report of Action with respect to all SWDF Bonds issued during the calendar quarter to include:

- (a) The issuance date, type of security, amount issued, interest rate along with any spread, index, and repricing period for a variable rate, date of maturity, issuance expenses realized to date, net proceeds to Applicant;

- (b) A summary of the specific terms and conditions of each supporting arrangement related to the SWDF Bonds such as any Bank Facility, Alternative Facility, and Hedging Agreement;
- (c) A copy of each Loan Agreement pertaining to all SWDF Bond proceeds received to date, which may be omitted from subsequent reports after initial submission; and
- (d) The cumulative principal amount of SWDF Bonds issued to date and the amount remaining to be issued.

4) Applicant shall file a final Report of Action on or before March 31, 2007, to include all information required in Ordering Paragraph (3) along with a balance sheet that reflects the capital structure following the obligations assumed for the SWDF Bonds issued. Applicant's final Report of Action shall further provide a detailed account of all the actual expenses and fees paid to date associated with the SWDF Bonds with an explanation of any variances from the estimated expenses contained in the Financing Summary attached to the application.

5) Approval of the application shall have no implications for ratemaking purposes.

6) This matter shall be continued, subject to the continuing review, audit, and appropriate directive of the Commission.

AN ATTESTED COPY hereof shall be sent by the Clerk of the Commission to: H. Allen Glover, Jr., Esquire, Woods Rogers, Wachovia Tower, Suite 1400, 10 South Jefferson Street, Roanoke, Virginia 24011; William E. Johnson, Senior Counsel, American Electric Power, 1 Riverside Plaza, Columbus, OH 43215 ; and to the Commission's Division of Economics and Finance.

COMMONWEALTH OF VIRGINIA
STATE CORPORATION COMMISSION
AT RICHMOND, DECEMBER 8, 2005

APPLICATION OF

APPALACHIAN POWER COMPANY

CASE NO. PUE-2005-00102.

For authority to incur
long-term debt

ORDER GRANTING AUTHORITY

On November 14, 2005, Appalachian Power Company ("APCO" or "Applicant") filed an application with the Virginia State Corporation Commission ("Commission") under Chapters 3 and 4 of Title 56 of the Code of Virginia for authority to issue long-term debt to the public and to an affiliate. In conjunction, Applicant requests authority to enter into one or more interest rate hedging arrangements to protect against future interest rate movements in connection with the long-term debt securities to be issued. Furthermore, APCO requests authority to utilize interest rate management techniques by entering into various Interest Rate Management Agreements ("IRMAs"). Applicant has paid the requisite fee of \$250. On December 8, 2005, APCO filed¹ an Amended Application withdrawing the Chapter 4 portion of its application

APCO proposes to issue secured or unsecured promissory notes ("Notes") up to the aggregate principal amount of \$700,000,000 from time to time through December 31, 2006. The Notes may be issued in the form of First Mortgage Bonds, Senior Notes, Senior or Subordinated Debentures (including Junior Subordinated Debentures), Trust Preferred Securities or other unsecured promissory notes. Within certain limitations, APCO requests flexibility to select specific terms and conditions for the Notes based on market conditions at the time of issuance. The Notes will have maturities of not less than nine (9) months and not more than 60 years. The interest rate may be fixed or variable. The fixed rate of any note shall not exceed by more than 350 basis points the yield to maturity on United States Treasury obligations of comparable maturity at the time of pricing of the Notes. The initial interest rate on any variable rate Note will not exceed 10% per annum.

¹ APCO provided the Amended Application to Commission Staff Counsel, who then transmitted the Amended Application for filing with the Clerk of the Commission at the request of and as an accommodation to the Applicant

APCO intends to sell the Notes (i) by competitive bidding; (ii) through negotiation with underwriters or agents; or (iii) by direct placement with a commercial bank or other institutional investor. Issuance costs are expected to be less than 1.0% of the principal. The proceeds from the issuance of the Notes will be used to redeem, directly or indirectly, long-term debt; to refund, directly or indirectly, preferred stock; to repay short-term debt; to reimburse APCO's treasury for construction program expenditures; and for other proper corporate purposes.

Trust Preferred Securities would be issued by financing entities, which APCO would organize and own exclusively for the purpose of facilitating certain types of financings such as the issuance of tax advantaged preferred securities. The financing entities would issue Trust Preferred Securities to third parties. APCO requests approval of all necessary authorities to enable the issuance of Trust Preferred Securities.

In conjunction with the issuance of the proposed securities, Applicant requests authority, through December 31, 2006, to enter into one or more interest rate hedging arrangements to protect against future interest rate movements in connection with the issuance of the Notes. Such hedging arrangements may include, but not be limited to, treasury lock agreements, forward-starting interest rate swaps, treasury put options, or interest rate collar agreements ("Treasury Hedges"). All Treasury Hedges will correspond to one or more of the Notes. Consequently, the cumulative notional amount of the Treasury Hedges cannot exceed \$700,000,000.

Finally, APCO requests a continuation of the authority granted in Case No. PUE-2004-00123 to utilize interest rate management techniques and enter into IMRAs through December 31, 2006.² The IRMAs will consist of interest rate swaps, caps, collars, floors, options, hedging forwards or futures, or any similar products designed and used to manage and minimize interest costs. IRMA transactions will be for a fixed period and based on a stated principal amount that corresponds to an underlying fixed or variable rate obligation of APCO. APCO will only enter

² Pursuant to the Commission's Order Granting Authority, dated November 30, 2004, in Case No. PUE-2004-00123, APCO's existing authority to utilize IRMAs is set to expire after December 31, 2005.

IRMAs with counterparties that are highly rated financial institutions. The aggregate notional amount of the IRMAs outstanding will not exceed 25% of APCO's existing debt obligations.

THE COMMISSION, upon consideration of the application, as amended, and having been advised by its Staff, is of the opinion and finds that approval of the amended application will not be detrimental to the public interest.

Accordingly, IT IS ORDERED THAT.

(1) Applicant is hereby authorized to issue and sell up to \$700,000,000 of Notes, from time to time during the period January 1, 2006, through December 31, 2006, for the purposes and under the terms and conditions set forth in the application, as amended by its filing dated December 8, 2005.

(2) Applicant is authorized to enter into the hedging agreements for the purposes set forth in its application and to the extent that the aggregate notional amount outstanding does not exceed \$700,000,000 during the period January 1, 2006 through December 31, 2006

(3) Applicant is authorized to enter into IRMAs for the purposes set forth in its application and to the extent that the aggregate notional amount outstanding does not exceed 25% of Applicant's total outstanding debt obligations during the period January 1, 2006, through December 31, 2006.

(4) Applicant shall not enter into any IRMA or hedging transaction involving counterparties having credit ratings of less than investment grade.

(5) Applicant shall submit to the Clerk of the Commission a preliminary Report of Action within ten (10) days after the issuance of any security pursuant to this Order to include the type of security, the issuance date, the amount of the issue, the interest rate or yield, the maturity date, and any securities retired with the proceeds.

(6) Applicant shall submit to the Clerk of the Commission a preliminary Report of Action within ten (10) days after it enters into any hedging agreement or IRMA pursuant to Ordering Paragraphs (2) and (3) to include: the beginning and, if established, ending dates of the agreement, the notional amount, the underlying securities on which the agreement is based, an

explanation of the general terms of the agreement that explain how the payment obligation is determined and when it is payable, and a calculation of the cumulative notional amount of all outstanding IRMAs as a percent of total debt outstanding.

(7) Within 60 days after the end of each calendar quarter in which any security is issued pursuant to this Order, Applicant shall file with the Clerk of the Commission a more detailed Report of Action to include: the type of security issued, the date and amount of each series, the interest rate or yield, the maturity date, net proceeds to Applicant, an itemized list of expenses to date associated with each issue, a description of how the proceeds were used, a list of all hedging agreements and IRMAs associated the debt issued, and a balance sheet reflecting the actions taken.

(8) Applicant's Final Report of Action shall be due on or before March 1, 2007, to include the information required in Ordering Paragraph (7) in a cumulative summary of actions taken during the period authorized.

(9) This matter shall remain under the continued review, audit, and appropriate action of this Commission.

AN ATTESTED COPY hereof shall be sent by the Clerk of the Commission to: William E. Johnson, Senior Counsel, American Electric Power, 1 Riverside Plaza, Columbus, OH 43215-2372; and to the Commission's Office of General Counsel and the Division of Economics and Finance.