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August 10, 2006
VIA FEDERAL EXPRESS

PLEASE RESPOND TO:
KINGSPORT OFFICE

TRA DOCKET ROOM
AUG 11 2006

Ms. Sharla Dillon, Docket Room Manager
Tennessee Regulatory Authority
460 James Robertson Parkway
Nashville, Tennessee 37243-0505

Re: **TRA Docket No. 06-00190: Application of Appalachian Power Company Seeking Approval for Financing Up to \$800,000,000 Through December 31, 2007 - Responses of Appalachian Power Company to Staff's Data Request No. 1**

Dear Ms. Dillon:

This letter contains Appalachian Power Company's (Appalachian) responses to the six (6) questions posed in Ms. Mundy's August 7, 2006 letter to me (Data Request No. 1). Per Ms. Mundy's letter, Appalachian is filing the original and thirteen (13) copies of this letter with you. Before providing Appalachian's specific responses to Staff's Data Request No. 1, Appalachian would like to provide the context for its responses by describing the relationship between Appalachian and Kingsport Power Company (Kingsport).

Appalachian and Kingsport are separate legal entities that finance their operations separately. Kingsport is not owned by Appalachian; nor is Kingsport a subsidiary of Appalachian. Both Kingsport and Appalachian are, however, wholly-owned subsidiaries of American Electric Power Company, Inc. (AEP), a publicly traded holding company. Kingsport purchases all of its power requirements from Appalachian at wholesale under a FERC-approved tariff and receives some services from Appalachian, at cost.

Kingsport owns assets in Tennessee that are used to provide service to its retail customers at rates regulated by the Tennessee Regulatory Commission (TRA). Kingsport's most recent financing application was approved by the TRA by Order dated January 17, 2006, in Docket No. 05-00313.

Appalachian owns a small amount of transmission assets in Tennessee, which, along with its other assets, are currently pledged under its first mortgage bonds. Because Appalachian owns assets in Tennessee, Appalachian has traditionally requested and received approval from the TRA for refinancings and/or new financings. Appalachian filed its general annual financing application (Case No. PUE-2006-00080) with the Virginia State Corporation Commission on July 18, 2006, and is awaiting final disposition of that matter.

The instant case involves an Appalachian financing application, not a Kingsport financing application. No additional assets of Appalachian in Tennessee will be pledged as collateral for any financings undertaken by Appalachian as a result of the TRA's approval of Appalachian's application in this case. More importantly, the TRA's approval of Appalachian's application will have no effect on the manner in which Kingsport is now or will be financed in the future.

Kingsport might be affected by Appalachian's financing activity to the extent that such financings affect future costs that are either charged to Kingsport for services Appalachian provides to Kingsport or reflected in Appalachian's wholesale electric rates to Kingsport. However, approval of Appalachian's financing application by the TRA could also benefit Kingsport's retail customers, to the extent that Appalachian uses the proceeds from any such financings to maintain or expand property or facilities that are used to provide wholesale electric service or other services to Kingsport.

With this contextual explanation, Appalachian's responses to Staff Data Request No. 1 are as follows:

1. Has Appalachian Power Company ("Appalachian") filed similar applications in other states and what is the status of any such application?

Response:

Appalachian filed its general annual financing application, Case No. PUE-2006-00080 with the Virginia State Corporation Commission on July 18, 2006 and is awaiting final disposition on that matter.

2. Has Appalachian applied for approval for financing from any Federal Agency? Have they notified any Federal Agency? If so, what is the status of any such application or notification?

Response:

Appalachian does not file for approval of the issuance of long-term debt with any Federal Agency. Approval to issue short-term debt has been received from the SEC under PUHCA File No. 70-10166. No other Federal approval has been sought or obtained.

3. How many end-user customers are served, directly or indirectly, by Appalachian, including customers of Kingsport Power Company ("Kingsport Power") d/b/a/ American Electric Power Company ("AEPC")?

Response:

Appalachian directly serves approximately 942,000 retail customers in the southwestern portion of Virginia and the southern portion of West Virginia. Appalachian does sell power to Kingsport Power, which serves approximately 45,000 end-user customers in Tennessee.

4. Will any Tennessee assets, (Kingsport Power Company) be pledged as collateral for any secured debt issued? If so, what percentage of Kingsport Power Company's assets will be pledged?

Response:

No assets owned by Kingsport will be pledged as collateral for any debt issued by Appalachian as a result of the TRA's approval of Appalachian's financing application for the period through December 31, 2007.

5. Will any of these funds be used for plant expansion, modernization, or otherwise used for the benefit of Kingsport ratepayers? Please itemize projects and approximate amounts projected. Include retirement of debt from the current Kingsport Power Company balance sheet as one of the benefits and/or other benefits such as reduced interest expense for Kingsport Power Company ratepayers.

Response:

No funds borrowed by Appalachian will be used for expansion or modernization of Kingsport plant or assets. However, as indicated above, improvements made by Appalachian would benefit Kingsport's retail customers. No retirement of Kingsport debt will occur as a result of the TRA's approval of Appalachian's application.

6. Provide the status and periodic updates of the Application including approval by the Virginia State Corporate Commission.

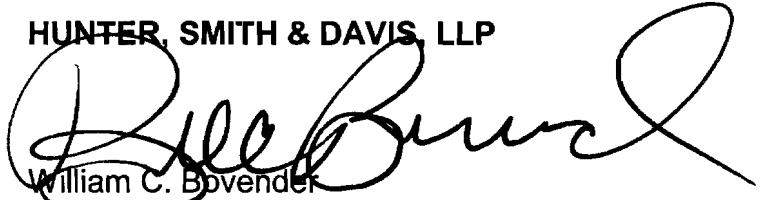
Response:

The application filed under Case No. PUE-2006-00080 is awaiting final disposition. Appalachian will notify you when the Virginia State Corporation Commission issues an order on its application.

If you have any questions, please do not hesitate to contact me.

Very sincerely yours,

HUNTER, SMITH & DAVIS, LLP



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WCB/pl

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