

BEFORE THE TENNESSEE REGULATORY AUTHORITY

NASHVILLE, TENNESSEE

March 8, 2007

IN RE:

**PETITION OF APPALACHIAN POWER COMPANY
FOR FINANCING UP TO \$800,000,000 THROUGH
DECEMBER 31, 2007**

**DOCKET NO.
06-00190**

ORDER APPROVING FINANCING TRANSACTION

This matter came before Chairman Sara Kyle, Director Eddie Roberson and Director Ron Jones of the Tennessee Regulatory Authority (the “Authority” or “TRA”), the voting panel assigned to this docket, at a regularly scheduled Authority Conference held on September 25, 2006 for consideration of the *Application of Appalachian Power Company* (“Application”) for approval to issue and sell, from time to time through December 31, 2007, secured or unsecured promissory notes (“Notes”) in the aggregate principal amount equal to, or on the date or dates of issuance up to eight hundred million dollars (\$800,000,000), pursuant to Tenn. Code Ann. § 65-4-109 (2004).

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 authorized to transact business in Tennessee and provides power to Kingsport Power Company. Both Appalachian and Kingsport Power Company (“Kingsport”) are wholly-owned subsidiaries of American Electric Power Company, Inc., a

publicly traded holding company registered under the Public Utility Holding Company Act of 1935. Kingsport purchases all of its power requirements from Appalachian at wholesale under a Federal Energy Regulatory Commission -approved tariff and receives some services from Appalachian, at costs, pursuant to the rules of the Securities and Exchange Commission.

The Virginia State Corporation Commission approved the proposed transactions, subject to certain limitations and requirements, by an Order dated August 11, 2006 in Case No. PUE-2006-00080 ("Virginia Order"). The Virginia Order is attached hereto as Exhibit 1 and incorporated by this reference as a part of this Order.

In its *Application* filed on July 25, 2006, Appalachian requests Authority approval to seek financing up to eight hundred million (\$800,000,000) through December 31, 2007. Appalachian proposes to issue and sell, from time to time through December 31, 2007, secured or unsecured promissory notes ("Notes") in the aggregate principal amount equal to, on the date or dates of issuance, up to eight hundred million (\$800,000,000). The Notes may be issued in the form of either First Mortgage Bonds, Senior Notes, Senior or Subordinated Debentures (including Junior Subordinated Debentures), Trust Preferred Securities or other unsecured promissory notes. The Notes will mature in not less than nine (9) months and not more than 60 years.

The interest rate of the Notes may be fixed or variable and will be sold (i) by competitive bidding; (ii) through negotiation with underwriters or agents; or (iii) by direct placement with a commercial bank or other institutional investor. Any fixed rate Note will be sold by Appalachian at a yield to maturity which shall not exceed by more than three hundred fifty (350) basis points the yield to maturity on United States Treasury obligations of comparable maturity at the time of pricing. The initial interest rate on any variable rate Note will not exceed 10% per annum. Appalachian will agree to specific redemption provisions, if any, including redemption

premiums, at the time of pricing. If it is deemed advisable, the Notes may be provided some form of credit enhancement, including, but not limited to, a letter of credit, bond insurance, standby purchase agreement or surety bond.

The First Mortgage Bonds will be issued under and secured by the Mortgage and Deed of Trust, dated December 1, 1940, made by Appalachian to Bankers Trust Company and R. Gregory Page, as Trustees. The *Application* states that a similar form of Supplemental Indenture will be used for one or more series of the First Mortgage Bonds (except for provisions such as interest rate, maturity, redemption terms and certain administrative matters). The Junior Subordinated Debentures will be issued under an Indenture, dated as of September 1, 1996 (on file in Docket No. 98-00753), as previously supplemented and amended, and as to be further supplemented by one or more Supplemental Indentures. Appalachian proposes to use a similar form of Supplemental Indenture for one or more series of the Junior Subordinated Debentures (except for provisions such as interest rate, maturity, redemption terms and certain administrative matters).

The unsecured Notes (other than Junior Subordinated Debentures or Trust Preferred Securities) may be issued under a new Indenture dated January 1, 1998, (also on File in Docket No. 98-00753), as previously supplemented and amended, and as to be further supplemented and amended by one or more Supplemental Indentures of Company Orders. The *Application* states that a similar form of Company Order or a Supplemental Indenture will be used for one or more series of the unsecured Notes other than Junior Subordinated Debentures or Trust Preferred Securities (except for provisions such as interest rate, maturity, redemption terms and certain administrative matters).

The Trust Preferred Securities would be issued by financing entities, such as a statutory trust, which Appalachian would organize and own exclusively for the purpose of facilitating certain types of financing such as the issuance of tax advantage preferred securities. These financing entities would issue Trust Preferred Securities to third parties. Appalachian requests authority to (i) issue Notes, including Junior Subordinate Debentures or other evidences of indebtedness to such financing entities in return for the proceeds of the sale of Trust Preferred Securities to third parties; and (ii) to acquire all of the voting interests or equity securities issued by the financing entity to establish Appalachian's ownership of the financing entity (the equity portion of the entity generally being created through a capital contribution or the purchase of equity securities, such as shares of stock or partnership interests, involving an amount usually ranging from one (1) to twenty five (25) percent of the capitalization of the financing entity.

Appalachian also requests authorization to enter into expense agreements with any financing entities it owns, pursuant to which Appalachian would agree to pay all expenses of such entity. Appalachian further requests authorization to guarantee (i) payment on interest, dividends or distributions on the Trust Preferred Securities issued by any of its subsidiary financing entities if and to the extent such financing entities declare dividends or distributions or pay interest out of funds illegally available therefore; (ii) payments to holders of the Trust Preferred Securities issued by such entities of amounts due upon liquidation of such entities or redemption of the Trust Preferred Securities of such entities; and (iii) certain additional amounts that may be payable in respect of Trust Preferred Securities.

Appalachian may enter into, from time to time through December 31, 2007, one or more interest rate hedging arrangements, including, but not limited to, treasury lock agreements, forward-starting interest rate swaps, treasury put options or interest rate collar agreements

(“Treasury Hedge Agreements”) to protect against future interest rate movements in connection with the issuance of Notes. The *Application* states that Appalachian proposes to utilize interest rate management techniques and enter into Interest Rate Management Agreements through December 31, 2007. Appalachian maintains that such authority would allow it sufficient alternatives and flexibility when striving to reduce its effective interest costs and manage interest costs on financing. The Interest Rate Management Agreements will be products commonly used in today’s capital markets with the purpose of managing and minimizing interest costs. The agreements will be for a fixed period and a stated principal amount, and shall be for underlying fixed or variable obligations of Appalachian. The aggregate notional amount of all Interest Rate Management Agreements shall not exceed 25% of Appalachian’s existing debt obligations, including pollution control revenue bonds.

In a Data Response filed on August 11, 2006, Appalachian stated that it owns a small amount of transmission assets in Tennessee, which, along with its other assets, are currently pledged under its first mortgage bonds. While Tennessee assets are pledged under its first mortgage bonds, Appalachian states that no additional Tennessee assets will be pledged as collateral for any debt issued by Appalachian as a result of the Authority’s approval with regard to this financing application. Per Appalachian, any proceeds realized from the sale of the Notes, together with any funds which may become available to Appalachian, will be used to redeem directly or indirectly long-term debt, to refund directly or indirectly preferred stock, to repay short-term debt at or prior to maturity, to reimburse Appalachian’s treasury for expenditures incurred in connection with its construction program and for other corporate purposes. In addition, Appalachian states that the proceeds may be used to purchase first mortgage bonds, senior notes, junior subordinated debentures or trust preferred securities or any other series of

preferred stock through tender offer, negotiated, open market or other form of purchase or otherwise in addition to redemption, if they can be refunded at lower effective costs.

The September 25, 2006 Authority Conference

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 authority for such proposed issue. It shall be the duty of the authority 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 authority.

At a regularly scheduled Authority Conference held on September 25, 2006, the panel voted unanimously to approve the *Application* and made the following findings:

1. That the proposed financing agreement is subject to Authority approval pursuant to Tenn. Code Ann. § 65-4-109 (2004);
2. That the transaction is being made in accordance with laws enforceable by this agency; and
3. The purpose of this transaction is in the public interest because it provides Appalachian's consumers and investors with sound and prudent financial policy. Specifically, the transaction will provide Appalachian with sufficient alternatives and flexibility when striving to reduce its effective interest costs and manage interest costs on financing, and it will provide consumers with meaningful competition.

IT IS THEREFORE ORDERED THAT:

1. Appalachian Power Company is authorized to enter into the financing transaction as described in the *Application* and discussed herein.
2. Appalachian Power Company shall be bound by the same conditions as set forth

in the Order of the Virginia State Corporation Commission that was filed with the Authority on August 23, 2006.

3. 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.


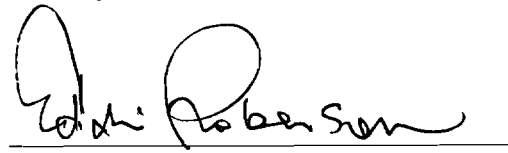


Sara Kyle, Chairman
Eddie Roberson, Director
Ron Jones, Director

Exhibit 1

Virginia State Corporation Commission
Case No. PUE-2006-00080
Order dated August 11, 2006

COMMONWEALTH OF VIRGINIA
STATE CORPORATION COMMISSION

AUGUST 11, 2006

APPLICATION OF

APPALACHIAN POWER COMPANY

CASE NO. PUE-2006-00080

For authority to incur
long-term debt

ORDER GRANTING AUTHORITY

On July 18, 2006, Appalachian Power Company ("APCO" or "Applicant") filed an application with the Virginia State Corporation Commission ("Commission") under Chapter 3 of Title 56 of the Code of Virginia for authority to issue long-term debt to the public. 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.

APCO proposes to issue secured or unsecured promissory notes ("Notes") up to the aggregate principal amount of \$800,000,000 from time to time through December 31, 2007. 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.

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 for the Notes are estimated to be 1.0% of the principal amount issued. 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.

APCO also requests authority to enter into agreements and assume obligations necessary for the payment of principal, interest, and other costs associated with the issuance and sale of up to \$17,500,000 of tax exempt pollution control revenue bonds ("Series J Bonds") by the Industrial Development Authority of Russell County, Virginia (the "Authority") on behalf of Applicant. Costs associated with the Series J Bonds are estimated by Applicant to approximate \$430,200, which may include, but not be limited to, trustee fees, legal fees, underwriting compensation, and bond insurance premium. Proceeds from the Series J Bonds will be applied to the refunding of up to \$17,500,000 of outstanding Series I Bonds issued pursuant to Commission Order dated December 4, 2003, in case No. PUE-2003-00407. The rate of interest on any Series J Bonds will not exceed a fixed rate 8.0% or an initial variable rate 8.0%. In addition, the initial public offering price on Series J Bonds shall be less than 95% of the principal amount issued

In conjunction with the issuance of the Notes and Series J Bonds, 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 and the Series J Bonds. 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 or Series J Bonds. Consequently, the cumulative notional amount of the Treasury Hedges cannot exceed \$800,000,000 for underlying Notes and \$17,500,000 for underlying Series J Bonds.

Finally, APCO requests a continuation of the authority granted in Case No. PUE-2005-00102 to utilize interest rate management techniques and enter into IRMAs through December 31, 2007.² 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, whether existing or anticipated. APCO will only enter 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 under Chapter 3 and, to the extent necessary for Trust Preferred Securities, Chapter 4 of Title 56 of the Code of Virginia to issue and sell up to \$800,000,000 of Notes, from time to time during the period January 1, 2007, through December 31, 2007, for the purposes and under the terms and conditions set forth in the application.

(2) Applicant is hereby authorized to enter into agreements and assume obligations necessary for the payment of principal, interest, and costs associated with the issuance and sale of up to \$17,500,000 of tax exempt pollution control revenue bonds ("Series J Bonds") from the

² Pursuant to the Commission's Order Granting Authority, dated December 8, 2005, in Case No. PUE-2005-00102, APCO's existing authority to utilize IRMAs is set to expire after December 31, 2006.

date of this Order through December 31, 2007, for the purposes and under the terms and conditions set forth in the application.

(3) 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 \$800,000,000 for underlying Notes and \$17,500,000 for underlying Series J Bonds through December 31, 2007.

(4) 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, 2007, through December 31, 2007.

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

(6) 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.

(7) 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 (3) and (4) 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.

(8) 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.

(9) Applicant's Final Report of Action shall be due on or before March 1, 2008, to include the information required in Ordering Paragraph (8) in a cumulative summary of actions taken during the period authorized.

(10) 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 43215-2373; and to the Commission's Office of General Counsel and the Division of Economics and Finance.