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PLEASE RESPOND TO:  
KINGSFORT OFFICE

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

Re: **TRA Docket No. 07-00019:** *Application of Appalachian Power Company Seeking Approval for 2007 Tax Exempt New Money*

Dear Ms. Dillon:

We submit herewith for filing with the Authority the Order of the Virginia State Corporation Commission granting Appalachian Power Company's Application for approval of the financing which is the subject matter of this docket in Tennessee.

Should there be any questions, please contact the writer.

Very sincerely yours,

HUNTER, SMITH & DAVIS, LLP

William C. Bovender  
Counsel for Appalachian Power Company

WCB/pl  
Enclosure

cc: William E. Johnson, Esq. (via e-mail)  
James R. Bacha, Esq. (via e-mail)  
Barry L. Thomas (via e-mail)

COMMONWEALTH OF VIRGINIA  
STATE CORPORATION COMMISSION

AT RICHMOND, FEBRUARY 28, 2007

APPLICATION OF

APPALACHIAN POWER COMPANY

CASE NO. PUE-2007-00001

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

RECEIVED CONTROL

ORDER GRANTING AUTHORITY

On January 11, 2007, 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 \$175,000,000 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 Mountaineer Generating Station in Mason County, West Virginia, its Amos Generating Station in Putnam County, West Virginia, and for portions of other environmental and pollution control facilities, as applicable.

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. Applicant estimates that issuance costs for the SWDF Bonds will be approximately \$5,035,500.

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 need to enter into one or more liquidity or credit facilities ("Bank Facility") with one or more banks, and 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.

Finally, Applicant requests authority to enter into one or more interest rate hedging arrangements ("Hedge Agreements") from time to time through December 31, 2007. 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 \$175,000,000.

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 \$175,000,000 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, 2007.

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, 2008, 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, Ohio 43215; and to the Commission's Division of Economics and Finance.