

BEFORE THE TENNESSEE REGULATORY AUTHORITY

NASHVILLE, TENNESSEE

April 11, 2007

IN RE:

**APPLICATION OF APPALACHIAN POWER COMPANY
SEEKING APPROVAL FOR 2007 TAX EXEMPT
NEW MONEY.**

)
)
)
)
)
)

**DOCKET NO.
07-00019**

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 March 12, 2007 for consideration of the *Application* of Appalachian Power Company seeking approval of financing for certain environmental and pollution control facilities.

Appalachian Power Company (“Appalachian”) is a Virginia corporation with its principal offices 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subsidiaries of American Electric Power Company, Inc., a publicly traded holding company registered under the repealed Public Utility Holding Company Act of 1935 (“PUHCA”).

Appalachian and Kingsport are separate legal entities and finance their operations separately. Kingsport purchases all of its power requirements from Appalachian at wholesale rates under a Federal Energy Regulatory Commission (“FERC”) approved tariff and receives

some services from Appalachian, at cost, pursuant to the rules of the Securities and Exchange Commission (“SEC”).

The Application

Appalachian proposes to obtain financing for portions of environmental and pollution control facilities located at Appalachian’s Mountaineer Generating Station in Macon County, West Virginia, Appalachian’s Amos Generating Station in Putman County, West Virginia, and for portions of other environmental and pollution control facilities, as applicable.

Appalachian requests authorization to assume certain obligations under various agreements in an aggregate principal amount not to exceed \$175 million in connection with the proposed issuance of one or more series of Solid Waste Disposal Facilities (“SWDF”) bonds to be issued by West Virginia Economic Development Authority (“WVEDA”) on or prior to December 31, 2007. The proceeds of the SWDF bonds would be loaned to Appalachian by the WVEDA to provide financing for a portion of the SWDF described herein. In connection with the SWDF bonds, Appalachian would assume certain obligations under one or more loan agreements with the WVEDA, and may enter into one or more guaranty agreements, bond insurance agreements and other similar undertakings guaranteeing repayment of any part of the obligations under one or more series of SWDF bonds for the benefit of the holders of such bonds. The SWDF bonds would be issued pursuant to one or more indentures between the WVEDA and a trustee. The payments to be made by Appalachian under the loan agreement for one or more series of SWDF bonds, together with other funds available for that purpose, would need to be sufficient to pay the principal, purchase price or premium, if any, and interest on such SWDF bonds.

The SWDF bonds would be sold in one or more underwritten public offerings, negotiated sales, or private placement transactions utilizing the customary and appropriate documentation. The price, maturity date(s), interest rate(s), and the redemption provisions and other terms and provisions of each series of SWDF bonds would be determined on the basis of negotiations between Appalachian, the WVEDA, and the purchasers of such bonds. In its *Application*, Appalachian states that it will not agree to the issuance of any series of the SWDF bonds, without further Order of the TRA, if (i) the stated maturity of any such bonds shall be more than forty (40) years; (ii) the fixed rate of interest to be borne by any such bonds shall exceed 8% or the initial rate of interest to be borne by any such bonds bearing a variable rate of interest shall exceed 8%; (iii) the discount from the initial public offering price of any such bond shall exceed 5% of the principal amount thereof; or (iv) the initial public offering price of any such bond shall be less than 95% of the principal amount thereof.

In the event that variable rate bonds are issued, Appalachian may enter into one or more liquidity or credit facilities (the "Facility") with a bank or banks (the "Bank") to be selected by Appalachian. The Bank Facility will be a credit agreement designed to provide Appalachian with immediately available funds with which to make payments with respect to any variable rate bonds that have been tendered for purchase and are not remarketed. The terms of each Facility, each credit agreement and each Facility note would be negotiated by Appalachian with the respective Bank or Facility provider and would be the most favorable terms that can be negotiated by Appalachian.

According to the *Application*, from time to time through December 31, 2007, Appalachian may enter into 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 (“Hedge Agreements”) to protect against future interest rate movements in connection with the issuance of the SWDF bonds.

Further, Appalachian owns a small amount of transmission assets in Tennessee, but has no outstanding mortgage bonds currently, and no additional Tennessee assets will be pledged as collateral for any financing undertaken by Appalachian as a result of the Authority’s approval of this financing application.

The March 12, 2007 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 March 12, 2007, the panel voted unanimously to approve the *Application* and made the following findings:


1. The proposed financing agreement is subject to Authority approval pursuant to Tenn. Code Ann. § 65-4-109 (2004);
2. The transaction is being made in accordance with laws enforceable by this agency; and
3. This transaction is in the public interest because it provides Appalachian with tax exempt financing, which lowers interest costs. Specifically, the transaction provides Appalachian with flexibility and alternatives while striving to manage its financing interest costs.

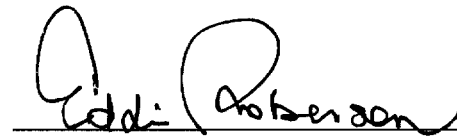
IT IS THEREFORE ORDERED THAT:

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 March 2, 2007, and attached as Exhibit 1 herein.

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. This decision is not 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

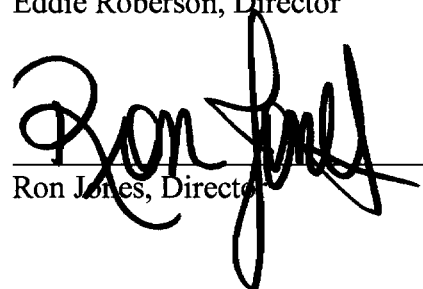

Ron Jones, Director

Exhibit 1

Virginia State Corporation Commission
Case No. PUE-2007-00001
Order dated February 28, 2007

Exhibit 1

Virginia State Corporation Commission
Case No. PUE-2007-00001
Order dated February 28, 2007

COMMONWEALTH OF VIRGINIA
STATE CORPORATION COMMISSION

AT RICHMOND, FEBRUARY 28, 2007

APPLICATION OF

APPALACHIAN POWER COMPANY

CASE NO. PUE-2007-00001

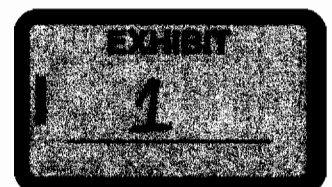
For authority to issue securities under
Chapter 3 of Title 56 of the Code of
Virginia

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.