



A Registered Limited Liability Partnership

**Attorneys At Law**

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Chairman Eddie Roberson  
Tennessee Regulatory Authority  
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ATTN: Sharla Dillon, Dockets & Records Manager

October 29, 2007  
**VIA FEDERAL EXPRESS**

PLEASE RESPOND TO:  
KINGSPORT OFFICE

RECEIVED  
2007 OCT 30 AM 11:05  
T.R.A. DOCKET ROOM

RE: Application of Appalachian Power Company  
Docket No. 07-00245

Dear Chairman Roberson:

We submit herewith the original and thirteen copies of the Application of Appalachian Power Company seeking the approval of the Tennessee Regulatory Authority for certain 2008 financing programs.

Authorization for these credit facilities is requested pursuant to TCA § 65-4-109 and related regulations.

Appalachian Power Company respectfully requests that, if at all possible, this Petition be considered by the Directors at the December, 2007 Conference, as delay in approval could have an adverse impact in the current rising interest environment.

Should there be any questions, please direct same to the writer.

Very sincerely yours,

**HUNTER, SMITH & DAVIS, LLP**

  
William C. Bovender

Chairman Eddie Roberson

Page 2

October 29, 2007

WCB/pl

Enclosures

cc: William E. Johnson, Esq. (via email, w/encls.)  
James R. Bacha, Esq. (via email, w/encls.)  
Thomas L. Stephens (via email, w/encls.)

Before the  
TENNESSEE REGULATORY AUTHORITY

In the Matter of the:

APPLICATION	:	
Of	:	DOCKET No. 07 _____
APPALACHIAN POWER COMPANY	:	

TO THE HONORABLE TENNESSEE REGULATORY AUTHORITY:

1. Your petitioner, Appalachian Power Company ("Appalachian"), respectfully shows that:

(a) It is a corporation duly organized and existing under the laws of the Commonwealth of Virginia, having its principal office in said Commonwealth in the City of Roanoke, and is properly qualified to transact business in the State of Tennessee.

(b) A true copy of its Restated Articles of Incorporation was filed with your Honorable Authority in Docket No. U-6533.

(c) Appalachian maintains its principal office in the State of Tennessee in the City of Kingsport, Sullivan County.

2. With the consent and approval of the Virginia State Corporation Commission and the further consent and approval of your Honorable Authority, Appalachian proposes to issue and sell, from time to time through December 31, 2008, unsecured promissory notes ("Notes") in the aggregate principal amount equal to, on the date or dates of issuance, up to \$700 million. The notes may be issued in the form of either 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 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 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 the 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.

In connection with the sale of unsecured Notes, Appalachian may agree to restrictive covenants which would prohibit it from, among other things: (i) creating or permitting to exist any liens on its property, with certain stated exceptions; (ii) creating indebtedness except as specified therein; (iii) failing to maintain a specified financial condition; (iv) entering into certain mergers, consolidations and dispositions of assets; and (v) permitting certain events to occur in connection with pension plans. In addition, Appalachian may permit the holder of the Notes to require Appalachian to prepay them after certain specified events, including an ownership change.

Appalachian may have the right to defer payment of interest on the Junior Subordinated Debentures for up to five years. However, Appalachian may not declare and pay dividends on its outstanding stock if payments under the Junior Subordinated Debentures are deferred. Additionally, Appalachian may be required to defer the payment

of interest under certain circumstances. The payment of principal, premium and interest on Junior Subordinated Debentures will be subordinated in right of payment to the prior payment in full of senior indebtedness.

The Junior Subordinated Debentures will be issued under an Indenture, dated as of September 1, 1996, as previously supplemented and amended, and as to be further supplemented and amended by one or more Supplemental Indentures. A copy of the most recent Supplemental Indenture for Junior Subordinated Debentures utilized by Appalachian is attached as Exhibit A. It is proposed that a similar form of Supplemental Indenture be used 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 or the Indenture dated as of January 1, 1998, as previously supplemented and amended, and as to be further supplemented and amended by one or more Supplemental Indentures or Company Orders. A copy of a recent Company Order utilized by Appalachian is attached hereto as Exhibit B. It is proposed that a similar form of Company Order or a Supplemental Indenture 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 financings such as the issuance of tax advantaged preferred securities. These financing entities would issue Trust Preferred Securities to third parties.

Appalachian requests authority to (i) issue Notes, including Junior Subordinated 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 1 to 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 of 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 legally available therefore; (ii) payments to the 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.

3. Appalachian may enter into, from time to time through December 31, 2008, 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 Agreement") to protect against future interest rate movements in connection with the issuance of the Notes. Each Treasury Hedge Agreement will correspond to one or more Notes that Appalachian will issue

pursuant to this Application; accordingly, the aggregate corresponding principal amounts of all Treasury Hedge Agreements cannot exceed an amount equal to, on the date or dates of entering such agreements, up to \$700 million.

Appalachian proposes, with the consent and approval of this Authority, to extend the authority granted in Docket No. 06-00190 (Order dated March 8, 2007) to utilize interest rate management techniques and enter into Interest Rate Management Agreements through December 31, 2008. Such authority will allow Appalachian sufficient alternatives and flexibility when striving to reduce its effective interest cost and manage interest cost on financings.

*A. Interest Rate Management Agreements*

The Interest Rate Management Agreements will be products commonly used in today's capital markets, consisting of "interest rate swaps", "caps", "collars", "floors", "options", or hedging products such as "forwards" or "futures", or similar products, the purpose of which is to manage and minimize interest costs. Appalachian expects to enter into these agreements with counterparties that are highly rated financial institutions. The transactions will be for a fixed period and a stated principal amount, and shall be for underlying fixed or variable obligations of Appalachian, whether existing or anticipated. 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.

By way of illustration, if Appalachian has entered into Interest Rate Management Agreements whose aggregate notional amounts equal 25% of Appalachian's existing debt obligations, Appalachian could not enter into a new Interest Rate Management Agreement unless and until an existing Interest Rate Management

Agreement expired, was terminated with the assent of the counterparty, or was assigned to a non-affiliated third party (at which point Appalachian could enter into a new Interest Rate Management Agreement in a notional amount no greater than the expired, terminated or assigned Interest Rate Management Agreement). Appalachian will not agree to any covenant more restrictive than those contained in the underlying obligation unless such Interest Rate Management Agreement either expires by its terms or is unwindable on or prior to the end of the Authorization Period.

*B.     Pricing Parameters*

Appalachian proposes that the pricing parameters for Interest Rate Management Agreements be governed by the parameters contained herein. Fees and commissions (but not payments) in connection with any Interest Rate Management Agreement will be in addition to the above parameters and will not exceed the greater of: (a) 2.50% of the amount of the underlying obligation involved or (b) amounts that are consistent with fees and commissions paid by similar companies of comparable credit quality in connection with similar agreements.

*C.     Accounting*

Appalachian proposes to account for these transactions in accordance with generally accepted accounting principles.

*D.     Authority Authorization*

Since market opportunities for these interest rate management alternatives are transitory, Appalachian must be able to execute interest rate management transactions



when the opportunity arises to obtain the most competitive pricing. Thus, Appalachian seeks approval to enter into any or all of the described transactions within the parameters discussed above prior to the time Appalachian reaches agreement with respect to the terms of such transactions.

If Appalachian utilizes Interest Rate Management Agreements, Appalachian's annual long-term interest charges could change. The authorization of the Interest Rate Management Agreements consistent with the parameters herein in no way relieves Appalachian of its responsibility to obtain the best terms available for the product selected and, therefore, it is appropriate and reasonable for this Authority to authorize Appalachian to agree to such terms and prices consistent with said parameters.

4. Any proceeds realized from the sale of the Notes, together with any other 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. Appalachian estimates that approximately \$855 million (exclusive of allowance for funds used during construction) will be expended throughout 2008 in connection with its construction program. In 2008 Appalachian has the following debt maturing: \$200,000,000 principal amount of 3.60% Senior Notes, Series G, due May 15, 2008.

Appalachian may purchase senior notes, junior subordinated debentures or trust preferred securities referred to herein or any other series of indebtedness or any 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 a lower

effective cost. The tender offers will occur if Appalachian considers that the payment of the necessary premium is prudent in light of the interest expense that could be saved by early redemption of any of these series.

\* \* \*

5. Appalachian proposes to finance portions of environmental and pollution control facilities at Appalachian's Mountaineer Generating Station in Mason County, West Virginia (as described in Exhibit C hereto), Appalachian's Amos Generating Station in Putnam County, West Virginia (as described in Exhibit D hereto, collectively, the "Project"), and for portions of other environmental and pollution control facilities, as applicable, in amounts up to \$200 million (provided that the total amount of indebtedness incurred by Appalachian pursuant to this Application shall not exceed \$700 million). Appalachian proposes to transfer all or part of the Project to the West Virginia Economic Development Authority (the "WVEDA"), and for Appalachian to acquire the Project from the WVEDA, all pursuant to a loan or installment sale agreement between the WVEDA and Appalachian

Appalachian intends to file an application with the WVEDA seeking an award from the state ceiling for private activity bonds of carry forward of up to \$200 million (the "Carry Forward"). This will allow the portion of the cost of the Project that qualifies as solid waste disposal facilities to be financed on a tax-exempt basis, resulting in lower costs.

In order to preserve the availability of this lower cost financing, Appalachian is filing this Application even though the WVEDA has not yet awarded such amounts. Accordingly, the amounts of the Carry Forward necessary to finance the subject environmental and pollution control facilities will not be actually financed pursuant to the

authority requested herein until and unless such amounts have been allocated by the WVEDA.

6. Appalachian requests authority to assume certain obligations under various agreements in an aggregate principal amount not to exceed \$200 million in connection with the proposed issuance of one or more series of Solid Waste Disposal Facilities Bonds to be issued by the WVEDA, to be appropriately designated (the "Solid Waste Disposal Facilities Bonds") to be issued on or prior to December 31, 2008. The proceeds of the Solid Waste Disposal Facilities Bonds would be loaned to Appalachian by the WVEDA to provide financing for a portion of the solid waste disposal facilities described herein.

In connection with the Solid Waste Disposal Facilities Bonds, Appalachian would assume certain obligations under one or more loan or installment payment 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 Solid Waste Disposal Facilities Bonds for the benefit of the holders of such bonds.

7. The WVEDA has the power, pursuant to the provisions of West Virginia Development Authority Act, Chapter 31, Article 15 of the West Virginia Code, to enter into the transactions contemplated by the Loan Agreement, as defined below, and to carry out its obligations thereunder by issuing and selling the Solid Waste Disposal Facilities Bonds and lending the proceeds from the sale of such Solid Waste Disposal Facilities Bonds to Appalachian to finance the acquisition and construction of certain environmental facilities, being within the corporate limits of Mason County, West Virginia and Putnam County, West Virginia. It is expected that proceeds exceeding

previously spent qualified costs would be deposited into a trust account until disbursed for construction costs. In that instance, Appalachian will submit periodic disbursement requests for the reimbursement of qualified construction costs previously incurred and paid for by Appalachian.

8. The Solid Waste Disposal Facilities Bonds would be issued pursuant to one or more indentures (each an "Indenture"), between the WVEDA and a Trustee. The proceeds from the sale of the Solid Waste Disposal Facilities Bonds would be loaned to Appalachian pursuant to one or more loan or installment payment agreements between the WVEDA and Appalachian (collectively the "Loan Agreement"). The payments to be made by Appalachian under the Loan Agreement for one or more series of Solid Waste Disposal Facilities 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 Solid Waste Disposal Facilities Bonds. The Loan Agreement and the payments to be made by Appalachian pursuant thereto will be assigned to the Trustee to secure the payment of the principal and interest on the related Solid Waste Disposal Facilities Bonds. Upon issuance of a series of Solid Waste Disposal Facilities Bonds, Appalachian may issue one or more guarantees or similar agreements in favor of the Trustee guaranteeing repayment of all or any part of the obligations under such Solid Waste Disposal Facilities Bonds for the benefit of the holders of such Bonds. Additionally, if it is deemed advisable, any series of Solid Waste Disposal Facilities Bonds as described herein 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.

9. The Solid Waste Disposal Facilities Bonds would be sold in one or more underwritten public offerings, negotiated sales, or private placement transactions utilizing

the customary and appropriate documentation. While Appalachian will not be a party to the underwriting arrangements for the Solid Waste Disposal Facilities Bonds, the Loan Agreement will provide that the Solid Waste Disposal Facilities Bonds shall have such terms as shall be specified by Appalachian.

The price, maturity date(s), interest rate(s), and the redemption provisions and other terms and provisions of each series of Solid Waste Disposal Facilities Bonds (including, in the event all or a portion of the Solid Waste Disposal Facilities Bonds initially bear a variable rate of interest, the method for determining the interest rate) would be determined on the basis of negotiations between Appalachian, the WVEDA, and the purchasers of such bonds. The Loan Agreement will provide that each loan payment or installment of the purchase price for the applicable Project payable by Appalachian will be in such an amount (together with other moneys held by the Trustee under the Indenture for that purpose) as will enable the WVEDA to pay, when due, (i) the interest on all Solid Waste Disposal Facilities Bonds and any additional bonds and refunding bonds issued under the Indenture; (ii) the stated maturities of the principal of all Solid Waste Disposal Facilities Bonds and any additional bonds and refunding bonds issued under the Indenture; and (iii) amounts, including any accrued interest, payable in connection with any redemption of the Solid Waste Disposal Facilities Bonds and any additional bonds or refunding bonds issued under the Indenture. The Loan Agreement also will obligate Appalachian to pay the fees and charges of the Trustee, as well as certain administrative expenses of the WVEDA. Appalachian will not agree, without further Order of this Authority, to the issuance of any series of the Solid Waste Disposal Facilities Bonds 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 Based upon past experience with similar financings, Appalachian estimates that bond insurance costs (if prepaid at closing) and other issuance costs, excluding underwriting fees, will be approximately \$3.6 million.

10. Because of the historical spread between long-term fixed interest rates and short-term rates, all or a portion of the Solid Waste Disposal Facilities Bonds may be issued initially with an interest rate that fluctuates on a weekly, monthly or other basis, as determined from time to time by Appalachian, including the issuance of auction mode Solid Waste Disposal Facilities Bonds. Appalachian would reserve the option to convert any variable rate Solid Waste Disposal Facilities Bonds at a later date to other interest rate modes, including a fixed rate of interest. Solid Waste Disposal Facilities Bonds that bear interest at a variable rate (the "Variable Rate Bonds") also may be issued subject to tender by the holders thereof for redemption or purchase. In order to provide funds to pay the purchase price of such tendered Variable Rate Bonds, Appalachian would enter into one or more Remarketing Agreements with one or more remarketing agents whereby the remarketing agent would use its best efforts to remarket such tendered Variable Rate Bonds to other purchasers at a price equal to the purchase price of such Variable Rate Bonds, which will be 100% of the par amount of such Variable Rate Bonds. Thus, to the extent Variable Rate Bonds are issued, the documentation will be similar to previous Solid Waste Disposal Facilities Bonds that were issued with a variable interest rate and it

is expected that the fees of the remarketing agent will be approximately 25 basis points.

11. Also, in the event that Variable Rate Bonds are issued, Appalachian may enter into one or more liquidity or credit facilities (the "Bank Facility") with a bank or banks (the "Bank") to be selected by Appalachian. The Bank Facility would 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. Pursuant to the Bank Facility, Appalachian may be required to execute and deliver to the Bank a note (the "Bank Facility Note") evidencing Appalachian's obligation to the Bank under the Bank Facility.

In order to obtain terms and conditions more favorable to Appalachian than those provided in the Bank Facility or to provide for additional liquidity or credit support to enhance the marketability of the Variable Rate Bonds, Appalachian may desire to be able to replace the Bank Facility with (or to initially use) one or more substitute liquidity support and/or credit support facilities (the instrument providing the liquidity support and/or credit support and any subsequent replacement support facility thereof, including any replacement facility which would replace a replacement facility, is hereinafter referred to as a "Facility") with one or more banks, insurance companies (including municipal bond insurance companies) or other financial institutions to be selected by Appalachian from time to time (each such financial institution hereinafter referred to as a "Facility Provider"). A Facility may be in the nature of a letter of credit, revolving credit agreement, standby credit agreement, bond purchase agreement or other similar arrangement designed to provide liquidity and/or credit support for the Variable Rate Bonds. It is contemplated that, in the event the Variable Rate Bonds are converted to bear

interest at a fixed rate to maturity, the Bank Facility (if not already replaced or terminated) or, if applicable, the Facility (unless earlier terminated) may be terminated, in whole or in part, following the date of conversion of such series of Variable Rate Bonds. The estimated cost of the financing shown in Section 9 does not include expenses incurred for entering into any Facility, however the impact on the overall cost of the financing would be approximately 90 basis points.

12. In connection with any Facility, Appalachian may enter into one or more credit or similar agreements (“Credit Agreements”) with the Facility Provider or providers of such Facility, which would contain the terms of reimbursement or payment to be made by Appalachian to the Facility Providers for amounts advanced by the Facility Providers under the particular Facility. Depending on the exact nature of a Facility, Appalachian may be required to execute and deliver to the Facility Provider a promissory note (each such note hereinafter referred to as a “Facility Note”) evidencing Appalachian’s repayment obligations to the Facility Provider under the related Credit Agreement; and the Trustee under the Indenture for the Variable Rate Bonds may be authorized, upon the terms set forth in such Indenture and any Credit Agreement, to draw upon the Facility for the purpose of paying the purchase price of Variable Rate Bonds tendered or required to be tendered for purchase in accordance with the terms of the Indenture which are not remarketed by the remarketing agent as provided in the remarketing agreement and/or for the purpose of paying accrued interest on the Variable Rate Bonds when due and paying principal, whether at maturity, on redemption, acceleration or otherwise.



13. 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. The aggregate outstanding principal amount of the obligations of Appalachian at any time under the Loan Agreements, and the Credit Facilities and related notes set forth in the immediately preceding sentence will not exceed the original aggregate principal amount of the Solid Waste Disposal Facilities Bonds (which will not exceed an aggregate principal amount of \$200 million) plus accrued but unpaid interest and premium, if any, on such bonds.

14. In order to obtain terms and conditions more favorable to Appalachian or to provide for additional liquidity or credit support to enhance the marketability of the Solid Waste Disposal Facilities Bonds (including Variable Rate Bonds) Appalachian may desire to obtain bond insurance with one or more insurance companies (including municipal bond insurance companies) or other financial institutions to be selected by Appalachian from time to time. The estimated cost of such bond insurance, if prepaid at closing, is shown in Section 9. The cost of bond insurance that is paid in installments over the life of the bond is estimated to be approximately 25 basis points per annum. It is anticipated that the obtaining of bond insurance would be an alternative to the liquidity and other back-up facilities described in Sections 8 and 9, thereby obviating the need to incur the costs associated with such structures.

15. Appalachian may enter into, from time to time through December 31, 2008, 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 (“Solid Waste Disposal Facilities Bonds Treasury Hedge Agreement”) to protect against future interest rate movements in connection with the issuance of the Solid Waste Disposal Facilities Bonds. Each Solid Waste Disposal Facilities Bonds Treasury Hedge Agreement will correspond to one or more Solid Waste Disposal Facilities Bonds that Appalachian will issue pursuant to this Application; accordingly, the aggregate corresponding principal amounts of all Solid Waste Disposal Facilities Bonds Treasury Hedge Agreements cannot exceed an amount equal to, on the date or dates of entering such agreements, up to \$200 million.

\* \* \*

16. Appalachian believes that the consummation of the transactions herein proposed will be in the best interests of Appalachian’s consumers and investors and consistent with sound and prudent financial policy.

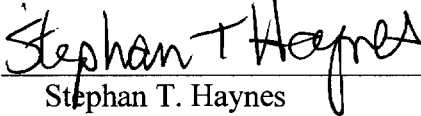
17. Balance Sheets and Statements of Income and Retained Earnings for the three months ended June 30, 2007 are attached hereto as Exhibit B.

18. The issuance of the Notes will be effected in compliance with all applicable indenture, charter and other standards relating to debt and equity securities and capitalization ratios of Appalachian.

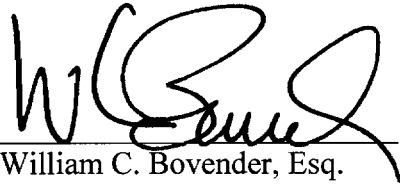
WHEREFORE, your Petitioner respectfully prays that your Honorable Authority enter an order (1) consenting to and approving the issuance, sale and delivery by Appalachian of Senior Notes (including Junior Subordinated Debentures and Trust Preferred Securities) or other unsecured promissory notes in the principal amount equal to, on the date or dates of issuance, of up to \$700 million pursuant to their respective

Indentures and company orders in substantially the form filed as exhibits hereto or similar documentation; (2) approving of Appalachian assuming certain obligations under various agreements in an aggregate principal amount not to exceed \$200 million in connection with the proposed issuance of one or more series of Solid Waste Disposal Facilities Bonds to be issued by the WVEDA and (3) granting to your Petitioner such other, further or general relief as, in the judgment of your Honorable Authority, your Petitioner may be entitled to have upon the facts hereinabove set forth.

APPALACHIAN POWER COMPANY

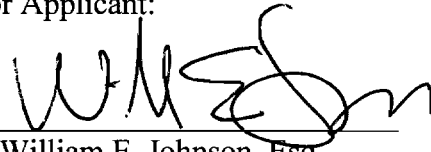
By   
Stephan T. Haynes  
Assistant Treasurer

Dated: October 3, 2007



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STATE OF OHIO                    )  
  ) ss:  
COUNTY OF FRANKLIN        )

Before me, Leslye R. Creek, a Notary Public in and for the State and County aforesaid, this third day of October, 2007, personally appeared Stephan T. Haynes, to me known to be the person whose name is signed to the foregoing Application, and after being first duly sworn made oath and said that he is the Assistant Treasurer of Appalachian Power Company, that he has read the Application and know the contents thereof, that the allegations therein are true and correct to the best of his knowledge, information and belief, and that he is duly authorized to make, verify and file the Application for Appalachian Power Company.

Subscribed and sworn to before me this third day of October, 2007.

  
Notary Public



LESLYE R. CREEK  
Notary Public, State of Ohio  
My Commission Expires 03-17-09

APPALACHIAN POWER COMPANY

AND

THE FIRST NATIONAL BANK OF CHICAGO,  
as Trustee

-----  
SECOND SUPPLEMENTAL INDENTURE

Dated as of March 1, 1997

TO

INDENTURE

Dated as of September 1, 1996  
-----

8% Junior Subordinated  
Deferrable Interest Debentures,  
Series B, Due 2027

SECOND SUPPLEMENTAL INDENTURE, dated as of the 1st day of March, 1997 (the "Second Supplemental Indenture"), between APPALACHIAN POWER COMPANY, a corporation duly organized and existing under the laws of the Commonwealth of Virginia (hereinafter sometimes referred to as the "Company"), and THE FIRST NATIONAL BANK OF CHICAGO, a national banking association organized and existing under the laws of the United States, as trustee (hereinafter sometimes referred to as the "Trustee") under the Indenture dated as of September 1, 1996 between the Company and the Trustee, as supplemented by a First Supplemental Indenture dated September 1, 1996 (the "Indenture"); all terms used and not defined herein are used as defined in the Indenture.

WHEREAS, the Company executed and delivered the Indenture to the Trustee to provide for the future issuance of its junior subordinated debentures (the "Debentures"), said Debentures to be issued from time to time in series as might be determined by the Company under the Indenture, in an unlimited aggregate principal amount which may be authenticated and delivered thereunder as in the Indenture provided; and

WHEREAS, pursuant to the terms of the Indenture, the Company desires to provide for the establishment of a new series of its Debentures to be known as its 8% Junior Subordinated Deferrable Interest Debentures, Series B, Due 2027 (said series being hereinafter referred to as the "Series B Debentures"), the form and substance of such Series B Debentures and the terms, provisions and conditions thereof to be set forth as provided in the Indenture and this Second Supplemental Indenture; and

WHEREAS, the Company desires and has requested the Trustee to join with it in the execution and delivery of this Second Supplemental Indenture, and all requirements necessary to make this Second Supplemental Indenture a valid instrument, in accordance with its terms, and to make the Series B Debentures, when executed by the Company and authenticated and delivered by the Trustee, the valid obligations of the Company, have been performed and fulfilled, and the execution and delivery hereof have been in all respects duly authorized;

NOW THEREFORE, in consideration of the purchase and acceptance of the Series B Debentures by the holders thereof, and for the purpose of setting forth, as provided in the Indenture, the form and substance of the Series B Debentures and the terms, provisions and conditions thereof, the Company covenants and agrees with the Trustee as follows:

## ARTICLE ONE

### General Terms and Conditions of the Series B Debentures

SECTION 1.01. There shall be and is hereby authorized a series of Debentures designated the "8% Junior Subordinated Deferrable Interest Debentures, Series B, Due 2027", limited in aggregate principal amount to \$90,000,000, which amount shall be as set forth in any written order of the Company for the authentication and delivery of Series B Debentures pursuant to Section 2.01 of the Indenture. The Series B Debentures shall mature and the principal shall be due and payable together with all accrued and unpaid interest thereon on March 31, 2027, and shall be issued in the form of registered Series B Debentures without coupons.

SECTION 1.02. Except as provided in Section 2.11(c) of the Indenture, the Series B Debentures shall be issued initially in the form of a Global Debenture in an aggregate principal amount equal to all outstanding Series B Debentures, to be registered in the name of the Depository, or its nominee, and delivered by the Trustee to the Depository for crediting to the accounts of its participants pursuant to the instructions of the Company. The Company shall execute a Global Debenture in such aggregate principal amount and deliver the same to the Trustee for authentication and delivery as hereinabove and in the Indenture provided. Payments on the Series B Debentures issued as a Global Debenture will be made to the Depository. The Depository for the Series B Debentures shall be The Depository Trust Company, New York, New York.

SECTION 1.03. If, pursuant to the provisions of Section 2.11(c) of the Indenture, the Series B Debentures are issued in certificated form, principal, premium, if any, and interest on the Series B Debentures will be payable, the transfer of such Series B Debentures will be registrable and such Series B Debentures will be exchangeable for Series B Debentures bearing identical terms and provisions at the office or agency of the Company only upon surrender of such certificated Series B Debenture and such other documents as required by the Indenture; provided, however, that payment of interest may be made at the option of the Company by check mailed to the registered holder at such address as shall appear in the Debenture Register.

SECTION 1.04. Each Series B Debenture shall bear interest at the rate of 8% per annum from the original date of issuance until the principal thereof becomes due and payable, and on any overdue principal and (to the extent that payment of such interest is enforceable under applicable law) on any overdue installment of interest at the same rate per annum, payable (subject to the



provisions of Article Three hereof) quarterly in arrears on each March 31, June 30, September 30 and December 31 (each, an "Interest Payment Date"), commencing on March 31, 1997. Interest (other than interest payable on redemption or maturity) shall be payable to the person in whose name such Series B Debenture or any predecessor Series B Debenture is registered at the close of business on the regular record date for such interest installment.

The regular record date for such interest installment shall be the close of business on the business day next preceding that Interest Payment Date; except that if, pursuant to the provisions of Section 2.11(c) of the Indenture, the Series B Debentures are no longer represented by a Global Debenture, the regular record date for such interest installment shall be the close of business on the March 15, June 15, September 15 or December 15 (whether or not a business day) next preceding the Interest Payment Date. Interest payable on redemption or maturity shall be payable to the person to whom the principal is paid. Any such interest installment not punctually paid or duly provided for shall forthwith cease to be payable to the registered holders on such regular record date, and may be paid to the person in whose name the Series B Debenture (or one or more Predecessor Debentures) is registered at the close of business on a special record date to be fixed by the Trustee for the payment of such defaulted interest, notice whereof shall be given to the registered holders of the Series B Debentures not less than 10 days prior to such special record date, or may be paid at any time in any other lawful manner not inconsistent with the requirements of any securities exchange on which the Series B Debentures may be listed, and upon such notice as may be required by such exchange, all as more fully provided in the Indenture.

The amount of interest payable for any period will be computed on the basis of a 360-day year of twelve 30-day months. In the event that any date on which interest is payable on the Series B Debentures is not a business day, then payment of interest payable on such date will be made on the next succeeding day which is a business day (and without any interest or other payment in respect of any such delay), except that, if such business day is in the next succeeding calendar year, such payment shall be made on the immediately preceding business day, in each case with the same force and effect as if made on such date.

## ARTICLE TWO

### Redemption of the Series B Debentures

SECTION 2.01. Subject to the terms of Article Three of the Indenture, the Company shall have the right to redeem the Series B Debentures, in whole or in part, from time to time, at the time and redemption price set forth in the form of Debenture contained

in Exhibit A hereto. Any redemption pursuant to this Section will be made upon not less than 30 nor more than 60 days' notice. If the Series B Debentures are only partially redeemed pursuant to this Section, the Debentures will be redeemed pro rata or by lot or by any other method utilized by the Trustee; provided, that if at the time of redemption, the Series B Debentures are registered as a Global Debenture, the Depository shall determine by lot the principal amount of such Series B Debentures held by each Series B Debentureholder to be redeemed.

### ARTICLE THREE

#### Extension of Interest Payment Period

SECTION 3.01. The Company shall have the right, at any time during the term of the Series B Debentures, from time to time to extend the interest payment period of such Series B Debentures for up to 20 consecutive quarters (the "Extended Interest Payment Period"), at the end of which period the Company shall pay all interest accrued and unpaid thereon (together with interest thereon compounded quarterly at the rate specified for the Series B Debentures to the extent permitted by applicable law); provided that, during such Extended Interest Payment Period, the Company shall not declare or pay any dividend on, or purchase, acquire or make a liquidation payment with respect to, any of its capital stock or make any guarantee payments with respect to the foregoing. Prior to the termination of any such Extended Interest Payment Period, the Company may further extend such period, provided that such period together with all such previous and further extensions thereof shall not exceed 20 consecutive quarters or extend beyond the maturity of the Series B Debentures.

Upon the termination of any Extended Interest Payment Period and upon the payment of all accrued and unpaid interest then due, the Company may select a new Extended Interest Payment Period, subject to the foregoing requirements. No interest shall be due and payable during an Extended Interest Payment Period, except at the end thereof.

SECTION 3.02. (a) The Company shall give the holders of the Series B Debentures and the Trustee written notice of its selection of such Extended Interest Payment Period at least 10 business days prior to the earlier of (i) the next succeeding Interest Payment Date or (ii) the date the Company is required to give notice to holders of the Series B Debentures (or, if applicable, to the New York Stock Exchange or other applicable self-regulatory organization), of the record or payment date of such interest payment, but in any event not less than two business days prior to such record date.

(b) The quarter in which any notice is given pursuant to paragraph (a) of this Section shall constitute one of the 20 quarters which comprise the maximum Extended Interest Payment Period.

#### ARTICLE FOUR

##### Form of Series B Debenture

SECTION 4.01. The Series B Debentures and the Trustee's Certificate of Authentication to be endorsed thereon are to be substantially in the form of Exhibit A hereto.

#### ARTICLE FIVE

##### Original Issue of Series B Debentures

SECTION 5.01. Series B Debentures in the aggregate principal amount of \$90,000,000 may, upon execution of this Second Supplemental Indenture, or from time to time thereafter, be executed by the Company and delivered to the Trustee for authentication, and the Trustee shall thereupon authenticate and deliver said Debentures to or upon the written order of the Company, signed by its Chairman of the Board, its President, or any Vice President and its Treasurer or an Assistant Treasurer, without any further action by the Company.

#### ARTICLE SIX

##### Covenant of the Company

SECTION 6.01. The Company will not declare or pay any dividend on, or purchase, acquire or make a distribution or liquidation payment with respect to, any of its capital stock, or make any guarantee payments with respect thereto, if at such time (i) there shall have occurred and be continuing any Event of Default under the Indenture or (ii) the Company shall have given notice of its selection of an Extended Interest Payment Period and such period, or any extension thereof, shall be continuing.

## ARTICLE SEVEN

### Miscellaneous Provisions

SECTION 7.01. Except as otherwise expressly provided in this Second Supplemental Indenture or in the form of Series B Debenture or otherwise clearly required by the context hereof or thereof, all terms used herein or in said form of Series B Debenture that are defined in the Indenture shall have the several meanings respectively assigned to them thereby.

SECTION 7.02. The Indenture, as supplemented by this Second Supplemental Indenture, is in all respects ratified and confirmed, and this Second Supplemental Indenture shall be deemed part of the Indenture in the manner and to the extent herein and therein provided.

SECTION 7.03. The recitals herein contained are made by the Company and not by the Trustee, and the Trustee assumes no responsibility for the correctness thereof. The Trustee makes no representation as to the validity or sufficiency of this Second Supplemental Indenture.

SECTION 7.04. This Second Supplemental Indenture may be executed in any number of counterparts each of which shall be an original; but such counterparts shall together constitute but one and the same instrument.

IN WITNESS WHEREOF, the parties hereto have caused this Second Supplemental Indenture to be duly executed, and their respective corporate seals to be hereunto affixed and attested, on the date or dates indicated in the acknowledgments and as of the day and year first above written.

APPALACHIAN POWER COMPANY

By \_\_\_\_\_  
Treasurer

Attest:

By \_\_\_\_\_  
Assistant Secretary

THE FIRST NATIONAL BANK OF CHICAGO  
as Trustee

By \_\_\_\_\_  
Vice President

Attest:

By \_\_\_\_\_  
Authorized Officer

State of Ohio                    }  
County of Franklin,    }    ss:

On this 14th day of March, 1997, personally appeared before me, a Notary Public within and for said County in the State aforesaid, A. A. Pena and John M. Adams, Jr., to me known and known to me to be respectively Treasurer and Assistant Secretary of APPALACHIAN POWER COMPANY, one of the corporations named in and which executed the foregoing instrument, who severally acknowledged that they did sign and seal said instrument as such Treasurer and Assistant Secretary for and on behalf of said corporation and that the same is their free act and deed as such Treasurer and Assistant Secretary, respectively, and the free and corporate act and deed of said corporation.

In Witness Whereof, I have hereunto set my hand and notarial seal this 14th day of March, 1997.

[Notarial Seal]

\_\_\_\_\_  
MARY M. SOLTESZ  
Notary Public, State of Ohio  
My Commission Expires 7-12-99

9

(FORM OF FACE OF DEBENTURE)

[IF THE SERIES B DEBENTURE IS TO BE A GLOBAL DEBENTURE, INSERT - This Debenture is a Global Debenture within the meaning of the Indenture hereinafter referred to and is registered in the name of a Depository or a nominee of a Depository. This Debenture is exchangeable for Debentures registered in the name of a person other than the Depository or its nominee only in the limited circumstances described in the Indenture, and no transfer of this Debenture (other than a transfer of this Debenture as a whole by the Depository to a nominee of the Depository or by a nominee of the Depository to the Depository or another nominee of the Depository) may be registered except in limited circumstances.]

Unless this Debenture is presented by an authorized representative of The Depository Trust Company, a New York corporation ("DTC"), to the issuer or its agent for registration of transfer, exchange or payment, and any Debenture issued is registered in the name of Cede & Co. or in such other name as is requested by an authorized representative of DTC and any payment hereon is made to Cede & Co., or to such other entity as is requested by an authorized representative of DTC, ANY TRANSFER, PLEDGE OR OTHER USE HEREOF FOR VALUE OR OTHERWISE BY OR TO ANY PERSON IS WRONGFUL inasmuch as the registered owner hereof, Cede & Co., has an interest herein.]

No. \_\_\_\_\_ \$ \_\_\_\_\_

CUSIP No. \_\_\_\_\_

APPALACHIAN POWER COMPANY

8% JUNIOR SUBORDINATED  
DEFERRABLE INTEREST DEBENTURE,  
SERIES B, DUE 2027

APPALACHIAN POWER COMPANY, a corporation duly organized and existing under the laws of the Commonwealth of Virginia (herein referred to as the "Company", which term includes any successor corporation under the Indenture hereinafter referred to), for value received, hereby promises to pay to \_\_\_\_\_ or registered assigns, the principal sum of \_\_\_\_\_ Dollars on March 31, 2027, and to pay interest on said principal sum from March 18, 1997 or from the most recent interest payment date (each such date, an "Interest Payment Date") to which interest has been paid or duly provided for, quarterly (subject to deferral as set



forth herein) in arrears on each March 31, June 30, September 30 and December 31 commencing March 31, 1997 at the rate of 8% per annum until the principal hereof shall have become due and payable, and on any overdue principal and premium, if any, and (without duplication and to the extent that payment of such interest is enforceable under applicable law) on any overdue installment of interest at the same rate per annum during such overdue period. Interest shall be computed on the basis of a 360-day year of twelve 30-day months. In the event that any date on which interest is payable on this Debenture is not a business day, then payment of interest payable on such date will be made on the next succeeding day which is a business day (and without any interest or other payment in respect of any such delay), except that, if such business day is in the next succeeding calendar year, such payment shall be made on the immediately preceding business day, in each case with the same force and effect as if made on such date. The interest installment so payable, and punctually paid or duly provided for, on any Interest Payment Date (other than interest payable on redemption or maturity) will, as provided in the Indenture, be paid to the person in whose name this Debenture (or one or more Predecessor Debentures, as defined in said Indenture) is registered at the close of business on the regular record date for such interest installment, [which shall be the close of business on the business day next preceding such Interest Payment Date.] [IF PURSUANT TO THE PROVISIONS OF SECTION 2.11(C) OF THE INDENTURE THE SERIES B DEBENTURES ARE NO LONGER REPRESENTED BY A GLOBAL DEBENTURE -- which shall be the close of business on the March 15, June 15, September 15 or December 15 (whether or not a business day) next preceding such Interest Payment Date.] Interest payable on redemption or maturity shall be payable to the person to whom the principal is paid. Any such interest installment not punctually paid or duly provided for shall forthwith cease to be payable to the registered holders on such regular record date, and may be paid to the person in whose name this Debenture (or one or more Predecessor Debentures) is registered at the close of business on a special record date to be fixed by the Trustee for the payment of such defaulted interest, notice whereof shall be given to the registered holders of this series of Debentures not less than 10 days prior to such special record date, or may be paid at any time in any other lawful manner not inconsistent with the requirements of any securities exchange on which the Debentures may be listed, and upon such notice as may be required by such exchange, all as more fully provided in the Indenture. The principal of (and premium, if any) and the interest on this Debenture shall be payable at the office or agency of the Company maintained for that purpose, in any coin or currency of the United States of America which at the time of payment is legal tender for payment of public and private debts; provided, however, that payment of interest may be made at the option of the Company by check mailed to the registered holder at such address as shall appear in the Debenture Register.

Payment of the principal of, premium, if any, and interest on this Debenture is, to the extent provided in the Indenture, subordinated and subject in right of payment to the prior payment in full of all Senior Indebtedness, as defined in the Indenture, and this Debenture is issued subject to the provisions of the Indenture with respect thereto. Each Holder of this Debenture, by accepting the same, (a) agrees to and shall be bound by such provisions, (b) authorizes and directs the Trustee on his or her behalf to take such action as may be necessary or appropriate to acknowledge or effectuate the subordination so provided and (c) appoints the Trustee his or her attorney-in-fact for any and all such purposes. Each Holder hereof, by his or her acceptance hereof, hereby waives all notice of the acceptance of the subordination provisions contained herein and in the Indenture by each holder of Senior Indebtedness, whether now outstanding or hereafter incurred, and waives reliance by each such holder upon said provisions.

This Debenture shall not be entitled to any benefit under the Indenture hereinafter referred to, be valid or become obligatory for any purpose until the Certificate of Authentication hereon shall have been signed by or on behalf of the Trustee.

Unless the Certificate of Authentication hereon has been executed by the Trustee or a duly appointed Authentication Agent referred to on the reverse side hereof, this Debenture shall not be entitled to any benefit under the Indenture or be valid or obligatory for any purpose.

The provisions of this Debenture are continued on the reverse side hereof and such continued provisions shall for all purposes have the same effect as though fully set forth at this place.

IN WITNESS WHEREOF, the Company has caused this Instrument to be executed.

Dated \_\_\_\_\_

APPALACHIAN POWER COMPANY

By \_\_\_\_\_

Attest:

By \_\_\_\_\_

(FORM OF CERTIFICATE OF AUTHENTICATION)

CERTIFICATE OF AUTHENTICATION

This is one of the Debentures of the series of Debentures described in the within-mentioned Indenture.

THE FIRST NATIONAL BANK OF CHICAGO  
as Trustee or as Authentication Agent

By \_\_\_\_\_  
Authorized Signatory

(FORM OF REVERSE OF DEBENTURE)

This Debenture is one of a duly authorized series of Debentures of the Company (herein sometimes referred to as the "Debentures"), specified in the Indenture, all issued or to be issued in one or more series under and pursuant to an Indenture dated as of September 1, 1996 duly executed and delivered between the Company and The First National Bank of Chicago, a national banking association organized and existing under the laws of the United States, as Trustee (herein referred to as the "Trustee"), as supplemented by the First Supplemental Indenture dated as of September 1, 1996 and the Second Supplemental Indenture dated as of March 1, 1997 between the Company and the Trustee (said Indenture as so supplemented being hereinafter referred to as the "Indenture"), to which Indenture and all indentures supplemental thereto reference is hereby made for a description of the rights, limitations of rights, obligations, duties and immunities thereunder of the Trustee, the Company and the holders of the Debentures. By the terms of the Indenture, the Debentures are issuable in series which may vary as to amount, date of maturity, rate of interest and in other respects as in the Indenture provided. This series of Debentures is limited in aggregate principal amount as specified in said Second Supplemental Indenture.

Subject to the terms of Article Three of the Indenture, the Company shall have the right to redeem this Debenture at the option of the Company, without premium or penalty, in whole or in part at any time on or after March 18, 2002 (an "Optional Redemption"), at a redemption price equal to 100% of the principal amount plus any accrued but unpaid interest to the date of such redemption (the "Optional Redemption Price"). Any redemption

pursuant to this paragraph will be made upon not less than 30 nor more than 60 days' notice, at the Optional Redemption Price. If the Debentures are only partially redeemed by the Company pursuant to an Optional Redemption, the Debentures will be redeemed pro rata or by lot or by any other method utilized by the Trustee; provided that if at the time of redemption, the Debentures are registered as a Global Debenture, the Depository shall determine by lot the principal amount of such Debentures held by each Debentureholder to be redeemed.

In the event of redemption of this Debenture in part only, a new Debenture or Debentures of this series for the unredeemed portion hereof will be issued in the name of the Holder hereof upon the cancellation hereof.

In case an Event of Default, as defined in the Indenture, shall have occurred and be continuing, the principal of all of the Debentures may be declared, and upon such declaration shall become, due and payable, in the manner, with the effect and subject to the conditions provided in the Indenture.

The Indenture contains provisions for defeasance at any time of the entire indebtedness of this Debenture upon compliance by the Company with certain conditions set forth therein.

The Indenture contains provisions permitting the Company and the Trustee, with the consent of the Holders of not less than a majority in aggregate principal amount of the Debentures of each series affected at the time outstanding, as defined in the Indenture, to execute supplemental indentures for the purpose of adding any provisions to or changing in any manner or eliminating any of the provisions of the Indenture or of any supplemental indenture or of modifying in any manner the rights of the Holders of the Debentures; provided, however, that no such supplemental indenture shall (i) extend the fixed maturity of any Debentures of any series, or reduce the principal amount thereof, or reduce the rate or extend the time of payment of interest thereon, or reduce any premium payable upon the redemption thereof, without the consent of the holder of each Debenture so affected or (ii) reduce the aforesaid percentage of Debentures, the holders of which are required to consent to any such supplemental indenture, without the consent of the holders of each Debenture then outstanding and affected thereby. The Indenture also contains provisions permitting the Holders of a majority in aggregate principal amount of the Debentures of all series at the time outstanding affected thereby, on behalf of the Holders of the Debentures of such series, to waive any past default in the performance of any of the covenants contained in the Indenture, or established pursuant to the Indenture with respect to such series, and its consequences, except a default in the payment of the principal of or premium, if any, or interest on any of the Debentures of such series. Any

such consent or waiver by the registered Holder of this Debenture (unless revoked as provided in the Indenture) shall be conclusive and binding upon such Holder and upon all future Holders and owners of this Debenture and of any Debenture issued in exchange herefor or in place hereof (whether by registration of transfer or otherwise), irrespective of whether or not any notation of such consent or waiver is made upon this Debenture.

No reference herein to the Indenture and no provision of this Debenture or of the Indenture shall alter or impair the obligation of the Company, which is absolute and unconditional, to pay the principal of and premium, if any, and interest on this Debenture at the time and place and at the rate and in the money herein prescribed.

The Company shall have the right at any time during the term of the Debentures, from time to time to extend the interest payment period of such Debentures for up to 20 consecutive quarters (the "Extended Interest Payment Period"), at the end of which period the Company shall pay all interest then accrued and unpaid (together with interest thereon compounded quarterly at the rate specified for the Debentures to the extent that payment of such interest is enforceable under applicable law); provided that, during such Extended Interest Payment Period the Company shall not declare or pay any dividend on, or purchase, acquire or make a liquidation payment with respect to, any of its capital stock, or make any guarantee payments with respect thereto. Prior to the termination of any such Extended Interest Payment Period, the Company may further extend such Extended Interest Payment Period, provided that such Period together with all such previous and further extensions thereof shall not exceed 20 consecutive quarters or extend beyond the maturity of the Debentures. At the termination of any such Extended Interest Payment Period and upon the payment of all accrued and unpaid interest and any additional amounts then due, the Company may select a new Extended Interest Payment Period.

As provided in the Indenture and subject to certain limitations therein set forth, this Debenture is transferable by the registered holder hereof on the Debenture Register of the Company, upon surrender of this Debenture for registration of transfer at the office or agency of the Company accompanied by a written instrument or instruments of transfer in form satisfactory to the Company or the Trustee duly executed by the registered Holder hereof or his or her attorney duly authorized in writing, and thereupon one or more new Debentures of authorized denominations and for the same aggregate principal amount and series will be issued to the designated transferee or transferees.

No service charge will be made for any such transfer, but the Company may require payment of a sum sufficient to cover any tax or other governmental charge payable in relation thereto.

Prior to due presentment for registration of transfer of this Debenture, the Company, the Trustee, any paying agent and any Debenture Registrar may deem and treat the registered Holder hereof as the absolute owner hereof (whether or not this Debenture shall be overdue and notwithstanding any notice of ownership or writing hereon made by anyone other than the Debenture Registrar) for the purpose of receiving payment of or on account of the principal hereof and premium, if any, and interest due hereon and for all other purposes, and neither the Company nor the Trustee nor any paying agent nor any Debenture Registrar shall be affected by any notice to the contrary.

No recourse shall be had for the payment of the principal of or the interest on this Debenture, or for any claim based hereon, or otherwise in respect hereof, or based on or in respect of the Indenture, against any incorporator, stockholder, officer or director, past, present or future, as such, of the Company or of any predecessor or successor corporation, whether by virtue of any constitution, statute or rule of law, or by the enforcement of any assessment or penalty or otherwise, all such liability being, by the acceptance hereof and as part of the consideration for the issuance hereof, expressly waived and released.

[The Debentures of this series are issuable only in registered form without coupons in denominations of \$25 and any integral multiple thereof.] [This Global Debenture is exchangeable for Debentures in definitive form only under certain limited circumstances set forth in the Indenture. Debentures of this series so issued are issuable only in registered form without coupons in denominations of \$25 and any integral multiple thereof.] As provided in the Indenture and subject to certain limitations [herein and] therein set forth, Debentures of this series [so issued] are exchangeable for a like aggregate principal amount of Debentures of this series of a different authorized denomination, as requested by the Holder surrendering the same.

All terms used in this Debenture which are defined in the Indenture shall have the meanings assigned to them in the Indenture.

FOR VALUE RECEIVED, the undersigned hereby sell(s), assign(s) and transfer(s) unto

(PLEASE INSERT SOCIAL SECURITY OR OTHER  
IDENTIFYING NUMBER OF ASSIGNEE)

\_\_\_\_\_  
\_\_\_\_\_  
(PLEASE PRINT OR TYPE NAME AND ADDRESS, INCLUDING ZIP CODE, OF  
ASSIGNEE) the within Debenture and all rights thereunder, hereby  
irrevocably constituting and appointing such person attorney to  
transfer such Debenture on the books of the Issuer, with full  
power of substitution in the premises.

Dated: \_\_\_\_\_

NOTICE: The signature to this assignment must correspond with the name as written upon the face of the within Debenture in every particular, without alteration or enlargement or any change whatever and NOTICE: Signature(s) must be guaranteed by a financial institution that is a member of the Securities Transfer Agents Medallion Program ("STAMP"), the Stock Exchange Medallion Program ("SEMP") or the New York Stock Exchange, Inc. Medallion Signature Program ("MSP").

## Exhibit B

April 10, 2006

Company Order and Officers' Certificate  
5.55% Senior Notes, Series M, due 2011  
6.375% Senior Notes, Series N, due 2036

The Bank of New York, as Trustee  
101 Barclay Street – 8W  
New York, New York 10286

Ladies and Gentlemen:

Pursuant to Article Two of the Indenture, dated as of January 1, 1998 (as it may be amended or supplemented, the "Indenture"), from Appalachian Power Company (the "Company") to The Bank of New York, as trustee (the "Trustee"), and the Board Resolutions dated December 14, 2005, a copy of which certified by the Secretary or an Assistant Secretary of the Company is being delivered herewith under Section 2.01 of the Indenture, and unless otherwise provided in a subsequent Company Order pursuant to Section 2.04 of the Indenture,

1. the Company's 5.55% Senior Notes, Series M, due 2011 (the "Series M Notes") and 6.375% Senior Notes, Series N, due 2036 (the "Series N Notes") are hereby established. The Series M Notes and the Series N Notes are collectively referred to herein as the "Notes". The Notes shall be in substantially the forms attached hereto as Exhibits 1 and 2.
2. the terms and characteristics of the Notes shall be as follows (the numbered clauses set forth below corresponding to the numbered subsections of Section 2.01 of the Indenture, with terms used and not defined herein having the meanings specified in the Indenture):
  - (i) the aggregate principal amount of Notes which may be authenticated and delivered under the Indenture initially shall be limited to \$250,000,000 for the Series M Notes and \$250,000,000 for the Series N Notes, except as contemplated in Section 2.01(i) of the Indenture and except that such principal amount may be increased from time to time; all Series M Notes and all Series N Notes need not be issued at the same time and each such series may be reopened at any time, without the consent of any securityholder, for issuance of additional Notes, which Notes will have the same interest rate, maturity and other terms as those initially issued;
  - (ii) the date on which the principal of the Series M Notes shall be payable shall be April 1, 2011 and the date on which the principal of the Series N Notes shall be payable shall be April 1, 2036;
  - (iii) interest shall accrue from the date of authentication of the Notes; the Interest



October 1, and the Regular Record Date for the determination of holders to whom interest is payable on any such Interest Payment Date shall be the March 15 or September 15 preceding the relevant Interest Payment Date; provided that the first Interest Payment Date shall be October 1, 2006 and interest payable on the Stated Maturity Date or any Redemption Date shall be paid to the Person to whom principal shall be paid;

- (iv) the interest rate at which the Series M Notes shall bear interest shall be 5.55% per annum and the interest rate at which the Series N Notes shall bear interest shall be 6.375% per annum;
- (v) the Notes shall be redeemable at the option of the Company, in whole at any time or in part from time to time, upon not less than thirty but not more than sixty days' previous notice given by mail to the registered owners of the Notes at a redemption price equal to the greater of (i) 100% of the principal amount of the Notes being redeemed and (ii) the sum of the present values of the remaining scheduled payments of principal and interest on the Notes being redeemed (excluding the portion of any such interest accrued to the date of redemption) discounted (for purposes of determining present value) to the redemption date on a semi-annual basis (assuming a 360-day year consisting of twelve 30-day months) at the Treasury Rate (as defined below) plus 15 basis points for the Series M Notes and 30 basis points for the Series N Notes, plus, in each case, accrued interest thereon to the date of redemption.

"Treasury Rate" means, with respect to any redemption date, the rate per annum equal to the semi-annual equivalent yield to maturity of the Comparable Treasury Issue, assuming a price for the Comparable Treasury Issue (expressed as a percentage of its principal amount) equal to the Comparable Treasury Price for such redemption date.

"Comparable Treasury Issue" means the United States Treasury security selected by an Independent Investment Banker as having a maturity comparable to the remaining term of the Notes that would be utilized, at the time of selection and in accordance with customary financial practice, in pricing new issues of corporate debt securities of comparable maturity to the remaining term of the Notes.

"Comparable Treasury Price" means, with respect to any redemption date, (1) the average of the Reference Treasury Dealer Quotations for such redemption date, after excluding the highest and lowest such Reference Treasury Dealer Quotations, or (2) if fewer than four such Reference Treasury Dealer Quotations are obtained, the average of all such quotations.

"Independent Investment Banker" means one of the Reference Treasury Dealers appointed by the Company and reasonably acceptable to the Trustee.

"Reference Treasury Dealer" means a primary U.S. government securities dealer in New York City selected by the Company and reasonably acceptable to the Trustee.

"Reference Treasury Dealer Quotation" means, with respect to the Reference Treasury Dealer and any redemption date, the average, as determined by the Trustee, of the bid and asked prices for the Comparable Treasury Issue (expressed in each case as a percentage of its principal amount) quoted in writing to the Trustee by such Reference Treasury Dealer at or before 5:00 p.m., New York City time, on the third Business Day preceding such redemption date.

- (vi) (a) the Notes shall be issued in the form of Global Notes; (b) the Depositary for such Global Notes shall be The Depositary Trust Company; and (c) the procedures with respect to transfer and exchange of Global Notes shall be as set forth in the forms of Note attached hereto;
- (vii) the title of the Series M Notes shall be "5.55% Senior Notes, Series M, due 2011" and the title of the Series N Notes shall be "6.375% Senior Notes, Series N, due 2036";
- (viii) the forms of the Notes shall be as set forth in Paragraph 1, above;
- (ix) not applicable;
- (x) the Notes shall not be subject to a Periodic Offering;
- (xi) not applicable;
- (xii) not applicable;
- (xiii) not applicable;
- (xiv) the Notes shall be issuable in denominations of \$1,000 and any integral multiple thereof;
- (xv) not applicable;
- (xvi) the Notes shall not be issued as Discount Securities;
- (xvii) not applicable;
- (xviii) not applicable, and
- (xix) So long as any of the Notes are outstanding, the Company will not create or

suffer to be created or to exist any additional mortgage, pledge, security interest, or other lien (collectively "Liens") on any of its utility properties or tangible assets now owned or hereafter acquired to secure any indebtedness for borrowed money ("Secured Debt"), without providing that the Notes will be similarly secured. This restriction does not apply to the Company's subsidiaries, nor will it prevent any of them from creating or permitting to exist Liens on their property or assets to secure any Secured Debt. Further, this restriction on Secured Debt does not apply to the Company's existing first mortgage bonds that have previously been issued under its mortgage indenture or any indenture supplemental thereto; provided that this restriction will apply to future issuances thereunder (other than issuances of refunding first mortgage bonds). In addition, this restriction does not prevent the creation or existence of:

- (a) Liens on property existing at the time of acquisition or construction of such property (or created within one year after completion of such acquisition or construction), whether by purchase, merger, construction or otherwise, or to secure the payment of all or any part of the purchase price or construction cost thereof, including the extension of any Liens to repairs, renewals, replacements, substitutions, betterments, additions, extensions and improvements then or thereafter made on the property subject thereto;
- (b) Financing of the Company's accounts receivable for electric service;
- (c) Any extensions, renewals or replacements (or successive extensions, renewals or replacements), in whole or in part, of liens permitted by the foregoing clauses; and
- (d) The pledge of any bonds or other securities at any time issued under any of the Secured Debt permitted by the above clauses.

In addition to the permitted issuances above, Secured Debt not otherwise so permitted may be issued in an amount that does not exceed 15% of Net Tangible Assets as defined below.

"Net Tangible Assets" means the total of all assets (including revaluations thereof as a result of commercial appraisals, price level restatement or otherwise) appearing on the Company's balance sheet, net of applicable reserves and deductions, but excluding goodwill, trade names, trademarks, patents, unamortized debt discount and all other like intangible assets (which term shall not be construed to include such revaluations), less the aggregate of the Company's current liabilities appearing on such balance sheet. For purposes of this definition, the Company's balance sheet does not include assets and liabilities of its subsidiaries.

This restriction also does not apply to or prevent the creation or existence of leases made, or existing on property acquired, in the ordinary course of business.

3. You are hereby requested to authenticate \$250,000,000 aggregate principal amount of 5.55% Senior Notes, Series M, due 2011 and \$250,000,000 aggregate principal amount of 6.375% Senior Notes, Series N, due 2036, executed by the Company and delivered to you concurrently with this Company Order and Officers' Certificate, in the manner provided by the Indenture.
4. You are hereby requested to hold the Notes as custodian for DTC in accordance with the Blanket Issuer Letter of Representations dated June 24, 2004, from the Company to DTC.
5. Concurrently with this Company Order and Officers' Certificate, an Opinion of Counsel under Sections 2.04 and 13.06 of the Indenture is being delivered to you.
6. The undersigned Stephan T. Haynes and Jeffrey D. Cross, the Assistant Treasurer and Assistant Secretary, respectively, of the Company do hereby certify that:
  - (i) we have read the relevant portions of the Indenture, including without limitation the conditions precedent provided for therein relating to the action proposed to be taken by the Trustee as requested in this Company Order and Officers' Certificate, and the definitions in the Indenture relating thereto;
  - (ii) we have read the Board Resolutions of the Company and the Opinion of Counsel referred to above;
  - (iii) we have conferred with other officers of the Company, have examined such records of the Company and have made such other investigation as we deemed relevant for purposes of this certificate;
  - (iv) in our opinion, we have made such examination or investigation as is necessary to enable us to express an informed opinion as to whether or not such conditions have been complied with; and
  - (v) on the basis of the foregoing, we are of the opinion that all conditions precedent provided for in the Indenture relating to the action proposed to be taken by the Trustee as requested herein have been complied with.

Kindly acknowledge receipt of this Company Order and Officers' Certificate, including the documents listed herein, and confirm the arrangements set forth herein by signing and returning the copy of this document attached hereto.

IN WITNESS WHEREOF, the Company has caused this Instrument to be executed.

Very truly yours,

APPALACHIAN POWER COMPANY

By: /s/ Stephan T. Haynes  
Assistant Treasurer

And: /s/ Jeffrey D. Cross  
Assistant Secretary

Acknowledged by Trustee:

By: /s/ Mary LaGumina  
Authorized Signatory

Unless this certificate is presented by an authorized representative of The Depository Trust Company (55 Water Street, New York, New York) to the issuer or its agent for registration of transfer, exchange or payment, and any certificate to be issued is registered in the name of Cede & Co. or in such other name as is requested by an authorized representative of The Depository Trust Company and any payment is made to Cede & Co., ANY TRANSFER, PLEDGE OR OTHER USE HEREOF FOR VALUE OR OTHERWISE BY OR TO ANY PERSON IS WRONGFUL inasmuch as the registered owner hereof, Cede & Co., has an interest herein. Except as otherwise provided in Section 2.11 of the Indenture, this Security may be transferred, in whole but not in part, only to another nominee of the Depository or to a successor Depository or to a nominee of such successor Depository.

No. R1

APPALACHIAN POWER COMPANY  
5.55% Senior Notes, Series M, due 2011

CUSIP: 037735 CF 2 Original Issue Date: April 10, 2006

Stated Maturity: April 1, 2011 Interest Rate : 5.55%

Principal Amount: \$250,000,000

Redeemable:	Yes	X	No
In Whole:	Yes	X	No
In Part:	Yes	X	No

APPALACHIAN POWER COMPANY, a corporation duly organized and existing under the laws of the Commonwealth of Virginia (herein referred to as the "Company", which term includes any successor corporation under the Indenture hereinafter referred to), for value received, hereby promises to pay to CEDE & CO. or registered assigns, the Principal Amount specified above on the Stated Maturity specified above, and to pay interest on said Principal Amount from the Original Issue Date specified above or from the most recent interest payment date (each such date, an "Interest Payment Date") to which interest has been paid or duly provided for, semi-annually in arrears on April 1 and October 1 in each year, commencing on October 1, 2006, at the Interest Rate per annum specified above, until the Principal Amount shall have been paid or duly provided for. Interest shall be computed on the basis of a 360-day year of twelve 30-day months.

The interest so payable, and punctually paid or duly provided for, on any Interest Payment Date, as provided in the Indenture, as hereinafter defined, shall be paid to the Person in whose name this Note (or one or more Predecessor Securities) shall have been registered at the close of business on the Regular Record Date with respect to such Interest Payment Date, which shall be the March 15 or September 15 (whether or not a Business Day) prior to such Interest Payment Date, provided that interest payable on the Stated Maturity or any redemption date shall be paid to the Person to whom principal is paid. Any such interest not so punctually paid or duly provided for shall forthwith cease to be payable to the Holder on such Regular Record Date and shall be paid as provided in said Indenture.

If any Interest Payment Date, any redemption date or Stated Maturity is not a Business Day, then payment of the amounts due on this Note on such date will be made on the next succeeding

Business Day, and no interest shall accrue on such amounts for the period from and after such Interest Payment Date, redemption date or Stated Maturity, as the case may be, with the same force and effect as if made on such date. The principal of (and premium, if any) and the interest on this Note shall be payable at the office or agency of the Company maintained for that purpose in the Borough of Manhattan, the City of New York, New York, in any coin or currency of the United States of America which at the time of payment is legal tender for payment of public and private debts; provided, however, that payment of interest (other than interest payable on the Stated Maturity or any redemption date) may be made at the option of the Company by check mailed to the registered holder at such address as shall appear in the Security Register.

This Note is one of a duly authorized series of Notes of the Company (herein sometimes referred to as the "Notes"), specified in the Indenture, all issued or to be issued in one or more series under and pursuant to an Indenture dated as of January 1, 1998 duly executed and delivered between the Company and The Bank of New York, a corporation organized and existing under the laws of the State of New York, as Trustee (herein referred to as the "Trustee") (such Indenture, as originally executed and delivered and as thereafter supplemented and amended being hereinafter referred to as the "Indenture"), to which Indenture and all indentures supplemental thereto or Company Orders reference is hereby made for a description of the rights, limitations of rights, obligations, duties and immunities thereunder of the Trustee, the Company and the holders of the Notes. By the terms of the Indenture, the Notes are issuable in series which may vary as to amount, date of maturity, rate of interest and in other respects as in the Indenture provided. This Note is one of the series of Notes designated on the face hereof.

This Note may be redeemed by the Company at its option, in whole at any time or in part from time to time, upon not less than thirty but not more than sixty days' previous notice given by mail to the registered owners of the Note at a redemption price equal to the greater of (i) 100% of the principal amount of the Note being redeemed and (ii) the sum of the present values of the remaining scheduled payments of principal and interest on the Note being redeemed (excluding the portion of any such interest accrued to the date of redemption) discounted (for purposes of determining present value) to the redemption date on a semi-annual basis (assuming a 360-day year consisting of twelve 30-day months) at the Treasury Rate (as defined below) plus 15 basis points, plus, in each case, accrued interest thereon to the date of redemption.

"Treasury Rate" means, with respect to any redemption date, the rate per annum equal to the semi-annual equivalent yield to maturity of the Comparable Treasury Issue, assuming a price for the Comparable Treasury Issue (expressed as a percentage of its principal amount) equal to the Comparable Treasury Price for such redemption date.

"Comparable Treasury Issue" means the United States Treasury security selected by an Independent Investment Banker as having a maturity comparable to the remaining term of the Notes that would be utilized, at the time of selection and in accordance with customary financial practice, in pricing new issues of corporate debt securities of comparable maturity to the remaining term of the Notes.

"Comparable Treasury Price" means, with respect to any redemption date, (1) the average of the Reference Treasury Dealer Quotations for such redemption date, after excluding the highest and lowest such Reference Treasury Dealer

Quotations, or (2) if fewer than four such Reference Treasury Dealer Quotations are obtained, the average of all such quotations.

“Independent Investment Banker” means one of the Reference Treasury Dealers appointed by the Company and reasonably acceptable to the Trustee.

“Reference Treasury Dealer” means a primary U. S. government securities dealer in New York City selected by the Company and reasonably acceptable to the Trustee.

“Reference Treasury Dealer Quotation” means, with respect to the Reference Treasury Dealer and any redemption date, the average, as determined by the Trustee, of the bid and asked prices for the Comparable Treasury Issue (expressed in each case as a percentage of its principal amount) quoted in writing to the Trustee by such Reference Treasury Dealer at or before 5:00 p.m., New York City time, on the third Business Day preceding such redemption date.

The Company shall not be required to (i) issue, exchange or register the transfer of any Notes during a period beginning at the opening of business 15 days before the day of the mailing of a notice of redemption of less than all the outstanding Notes of the same series and ending at the close of business on the day of such mailing, nor (ii) register the transfer of or exchange of any Notes of any series or portions thereof called for redemption. This Global Note is exchangeable for Notes in definitive registered form only under certain limited circumstances set forth in the Indenture.

In the event of redemption of this Note in part only, a new Note or Notes of this series, of like tenor, for the unredeemed portion hereof will be issued in the name of the Holder hereof upon the surrender of this Note.

In case an Event of Default, as defined in the Indenture, shall have occurred and be continuing, the principal of all of the Notes may be declared, and upon such declaration shall become, due and payable, in the manner, with the effect and subject to the conditions provided in the Indenture.

The Indenture contains provisions for defeasance at any time of the entire indebtedness of this Note upon compliance by the Company with certain conditions set forth therein.

As described in the Company Order and Officers’ Certificate, so long as this Note is outstanding, the Company is subject to a limitation on Liens as described therein.

The Indenture contains provisions permitting the Company and the Trustee, with the consent of the Holders of not less than a majority in aggregate principal amount of the Notes of each series affected at the time outstanding, as defined in the Indenture, to execute supplemental indentures for the purpose of adding any provisions to or changing in any manner or eliminating any of the provisions of the Indenture or of any supplemental indenture or of modifying in any manner the rights of the Holders of the Notes; provided, however, that no such supplemental indenture shall (i) extend the fixed maturity of any Notes of any series, or reduce the principal amount thereof, or reduce the rate or extend the time of payment of interest thereon, or reduce any premium payable upon the redemption thereof, or reduce the amount of the principal of a Discount Security that



would be due and payable upon a declaration of acceleration of the maturity thereof pursuant to the Indenture, without the consent of the holder of each Note then outstanding and affected; (ii) reduce the aforesaid percentage of Notes, the holders of which are required to consent to any such supplemental indenture, or reduce the percentage of Notes, the holders of which are required to waive any default and its consequences, without the consent of the holder of each Note then outstanding and affected thereby; or (iii) modify any provision of Section 6.01(c) of the Indenture (except to increase the percentage of principal amount of securities required to rescind and annul any declaration of amounts due and payable under the Notes), without the consent of the holder of each Note then outstanding and affected thereby. The Indenture also contains provisions permitting the Holders of a majority in aggregate principal amount of the Notes of all series at the time outstanding affected thereby, on behalf of the Holders of the Notes of such series, to waive any past default in the performance of any of the covenants contained in the Indenture, or established pursuant to the Indenture with respect to such series, and its consequences, except a default in the payment of the principal of or premium, if any, or interest on any of the Notes of such series. Any such consent or waiver by the registered Holder of this Note (unless revoked as provided in the Indenture) shall be conclusive and binding upon such Holder and upon all future Holders and owners of this Note and of any Note issued in exchange herefor or in place hereof (whether by registration of transfer or otherwise), irrespective of whether or not any notation of such consent or waiver is made upon this Note.

No reference herein to the Indenture and no provision of this Note or of the Indenture shall alter or impair the obligation of the Company, which is absolute and unconditional, to pay the principal of and premium, if any, and interest on this Note at the time and place and at the rate and in the money herein prescribed.

As provided in the Indenture and subject to certain limitations therein set forth, this Note is transferable by the registered holder hereof on the Note Register of the Company, upon surrender of this Note for registration of transfer at the office or agency of the Company as may be designated by the Company accompanied by a written instrument or instruments of transfer in form satisfactory to the Company or the Trustee duly executed by the registered Holder hereof or his or her attorney duly authorized in writing, and thereupon one or more new Notes of authorized denominations and for the same aggregate principal amount and series will be issued to the designated transferee or transferees. No service charge will be made for any such transfer, but the Company may require payment of a sum sufficient to cover any tax or other governmental charge payable in relation thereto.

Prior to due presentment for registration of transfer of this Note, the Company, the Trustee, any paying agent and any Note Registrar may deem and treat the registered Holder hereof as the absolute owner hereof (whether or not this Note shall be overdue and notwithstanding any notice of ownership or writing hereon made by anyone other than the Note Registrar) for the purpose of receiving payment of or on account of the principal hereof and premium, if any, and interest due hereon and for all other purposes, and neither the Company nor the Trustee nor any paying agent nor any Note Registrar shall be affected by any notice to the contrary.

No recourse shall be had for the payment of the principal of or the interest on this Note, or for any claim based hereon, or otherwise in respect hereof, or based on or in respect of the Indenture, against any incorporator, stockholder, officer or director, past, present or future, as such, of the Company or of any predecessor or successor corporation, whether by virtue of any constitution, statute or rule of law, or by the enforcement of any assessment or penalty or otherwise,

all such liability being, by the acceptance hereof and as part of the consideration for the issuance hereof, expressly waived and released.

The Notes of this series are issuable only in registered form without coupons in denominations of \$1,000 and any integral multiple thereof. As provided in the Indenture and subject to certain limitations, Notes of this series are exchangeable for a like aggregate principal amount of Notes of this series of a different authorized denomination, as requested by the Holder surrendering the same.

All terms used in this Note which are defined in the Indenture shall have the meanings assigned to them in the Indenture.

This Note shall not be entitled to any benefit under the Indenture hereinafter referred to, be valid or become obligatory for any purpose until the Certificate of Authentication hereon shall have been signed by or on behalf of the Trustee.

IN WITNESS WHEREOF, the Company has caused this Instrument to be executed.

APPALACHIAN POWER COMPANY

By:

Assistant Treasurer

Attest:

By:

Assistant Secretary

CERTIFICATE OF AUTHENTICATION

This is one of the Notes of the series of Notes designated in accordance with, and referred to in, the within-mentioned Indenture.

Dated April 10, 2006

THE BANK OF NEW YORK

By: \_\_\_\_\_  
Authorized Signatory

FOR VALUE RECEIVED, the undersigned hereby sell(s), assign(s) and transfer(s) unto  
(PLEASE INSERT SOCIAL SECURITY OR OTHER  
IDENTIFYING NUMBER OF ASSIGNEE)

\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_  
(PLEASE PRINT OR TYPE NAME AND ADDRESS, INCLUDING ZIP CODE, OF  
ASSIGNEE) the within Note and all rights thereunder, hereby  
irrevocably constituting and appointing such person attorney to  
transfer such Note on the books of the Issuer, with full  
power of substitution in the premises.

Dated: \_\_\_\_\_

NOTICE: The signature to this assignment must correspond with the name as written upon the face of the within Note in every particular, without alteration or enlargement or any change whatever and NOTICE: Signature(s) must be guaranteed by a financial institution that is a member of the Securities Transfer Agents Medallion Program ("STAMP"), the Stock Exchange Medallion Program ("SEMP") or the New York Stock Exchange, Inc. Medallion Signature Program ("MSP").

Unless this certificate is presented by an authorized representative of The Depository Trust Company (55 Water Street, New York, New York) to the issuer or its agent for registration of transfer, exchange or payment, and any certificate to be issued is registered in the name of Cede & Co. or in such other name as is requested by an authorized representative of The Depository Trust Company and any payment is made to Cede & Co., ANY TRANSFER, PLEDGE OR OTHER USE HEREOF FOR VALUE OR OTHERWISE BY OR TO ANY PERSON IS WRONGFUL inasmuch as the registered owner hereof, Cede & Co., has an interest herein. Except as otherwise provided in Section 2.11 of the Indenture, this Security may be transferred, in whole but not in part, only to another nominee of the Depository or to a successor Depository or to a nominee of such successor Depository.

No. R1

APPALACHIAN POWER COMPANY  
6.375% Senior Notes, Series N, due 2036

CUSIP: 037735 CG 0 Original Issue Date: April 10, 2006

Stated Maturity: April 1, 2036 Interest Rate: 6.375%

Principal Amount: \$250,000,000

Redeemable:	Yes	X	No
In Whole:	Yes	X	No
In Part:	Yes	X	No

APPALACHIAN POWER COMPANY, a corporation duly organized and existing under the laws of the Commonwealth of Virginia (herein referred to as the "Company", which term includes any successor corporation under the Indenture hereinafter referred to), for value received, hereby promises to pay to CEDE & CO. or registered assigns, the Principal Amount specified above on the Stated Maturity specified above, and to pay interest on said Principal Amount from the Original Issue Date specified above or from the most recent interest payment date (each such date, an "Interest Payment Date") to which interest has been paid or duly provided for, semi-annually in arrears on April 1 and October 1 in each year, commencing on October 1, 2006, at the Interest Rate per annum specified above, until the Principal Amount shall have been paid or duly provided for. Interest shall be computed on the basis of a 360-day year of twelve 30-day months.

The interest so payable, and punctually paid or duly provided for, on any Interest Payment Date, as provided in the Indenture, as hereinafter defined, shall be paid to the Person in whose name this Note (or one or more Predecessor Securities) shall have been registered at the close of business on the Regular Record Date with respect to such Interest Payment Date, which shall be the March 15 or September 15 (whether or not a Business Day) prior to such Interest Payment Date, provided that interest payable on the Stated Maturity or any redemption date shall be paid to the Person to whom principal is paid. Any such interest not so punctually paid or duly provided for shall forthwith cease to be payable to the Holder on such Regular Record Date and shall be paid as provided in said Indenture.

If any Interest Payment Date, any redemption date or Stated Maturity is not a Business Day, then payment of the amounts due on this Note on such date will be made on the next succeeding Business Day, and no interest shall accrue on such amounts for the period from and after such Interest Payment Date, redemption date or Stated Maturity, as the case may be, with the same force and effect as if made on such date. The principal of (and premium, if any) and the interest on this Note shall be payable at the office or agency of the Company maintained for that purpose in the Borough of Manhattan, the City of New York, New York, in any coin or currency of the United States of America which at the time of payment is legal tender for payment of public and private debts; provided, however, that payment of interest (other than interest payable on the Stated Maturity or any redemption date) may be made at the option of the Company by check mailed to the registered holder at such address as shall appear in the Security Register.

This Note is one of a duly authorized series of Notes of the Company (herein sometimes referred to as the "Notes"), specified in the Indenture, all issued or to be issued in one or more series under and pursuant to an Indenture dated as of January 1, 1998 duly executed and delivered between the Company and The Bank of New York, a corporation organized and existing under the laws of the State of New York, as Trustee (herein referred to as the "Trustee") (such Indenture, as originally executed and delivered and as thereafter supplemented and amended being hereinafter referred to as the "Indenture"), to which Indenture and all indentures supplemental thereto or Company Orders reference is hereby made for a description of the rights, limitations of rights, obligations, duties and immunities thereunder of the Trustee, the Company and the holders of the Notes. By the terms of the Indenture, the Notes are issuable in series which may vary as to amount, date of maturity, rate of interest and in other respects as in the Indenture provided. This Note is one of the series of Notes designated on the face hereof.

This Note may be redeemed by the Company at its option, in whole at any time or in part from time to time, upon not less than thirty but not more than sixty days' previous notice given by mail to the registered owners of the Note at a redemption price equal to the greater of (i) 100% of the principal amount of the Note being redeemed and (ii) the sum of the present values of the remaining scheduled payments of principal and interest on the Note being redeemed (excluding the portion of any such interest accrued to the date of redemption) discounted (for purposes of determining present value) to the redemption date on a semi-annual basis (assuming a 360-day year consisting of twelve 30-day months) at the Treasury Rate (as defined below) plus 30 basis points, plus, in each case, accrued interest thereon to the date of redemption.

"Treasury Rate" means, with respect to any redemption date, the rate per annum equal to the semi-annual equivalent yield to maturity of the Comparable Treasury Issue, assuming a price for the Comparable Treasury Issue (expressed as a percentage of its principal amount) equal to the Comparable Treasury Price for such redemption date.

"Comparable Treasury Issue" means the United States Treasury security selected by an Independent Investment Banker as having a maturity comparable to the remaining term of the Notes that would be utilized, at the time of selection and in accordance with customary financial practice, in pricing new issues of corporate debt securities of comparable maturity to the remaining term of the Notes.

“Comparable Treasury Price” means, with respect to any redemption date, (1) the average of the Reference Treasury Dealer Quotations for such redemption date, after excluding the highest and lowest such Reference Treasury Dealer Quotations, or (2) if fewer than four such Reference Treasury Dealer Quotations are obtained, the average of all such quotations.

“Independent Investment Banker” means one of the Reference Treasury Dealers appointed by the Company and reasonably acceptable to the Trustee.

“Reference Treasury Dealer” means a primary U. S. government securities dealer in New York City selected by the Company and reasonably acceptable to the Trustee.

“Reference Treasury Dealer Quotation” means, with respect to the Reference Treasury Dealer and any redemption date, the average, as determined by the Trustee, of the bid and asked prices for the Comparable Treasury Issue (expressed in each case as a percentage of its principal amount) quoted in writing to the Trustee by such Reference Treasury Dealer at or before 5:00 p.m., New York City time, on the third Business Day preceding such redemption date.

The Company shall not be required to (i) issue, exchange or register the transfer of any Notes during a period beginning at the opening of business 15 days before the day of the mailing of a notice of redemption of less than all the outstanding Notes of the same series and ending at the close of business on the day of such mailing, nor (ii) register the transfer of or exchange of any Notes of any series or portions thereof called for redemption. This Global Note is exchangeable for Notes in definitive registered form only under certain limited circumstances set forth in the Indenture.

In the event of redemption of this Note in part only, a new Note or Notes of this series, of like tenor, for the unredeemed portion hereof will be issued in the name of the Holder hereof upon the surrender of this Note.

In case an Event of Default, as defined in the Indenture, shall have occurred and be continuing, the principal of all of the Notes may be declared, and upon such declaration shall become, due and payable, in the manner, with the effect and subject to the conditions provided in the Indenture.

The Indenture contains provisions for defeasance at any time of the entire indebtedness of this Note upon compliance by the Company with certain conditions set forth therein.

As described in the Company Order and Officers’ Certificate, so long as this Note is outstanding, the Company is subject to a limitation on Liens as described therein.

The Indenture contains provisions permitting the Company and the Trustee, with the consent of the Holders of not less than a majority in aggregate principal amount of the Notes of each series affected at the time outstanding, as defined in the Indenture, to execute supplemental indentures for the purpose of adding any provisions to or changing in any manner or eliminating any of the provisions of the Indenture or of any supplemental indenture or of modifying in any manner the rights of the Holders of the Notes; provided, however, that no such supplemental indenture shall

(i) extend the fixed maturity of any Notes of any series, or reduce the principal amount thereof, or reduce the rate or extend the time of payment of interest thereon, or reduce any premium payable upon the redemption thereof, or reduce the amount of the principal of a Discount Security that would be due and payable upon a declaration of acceleration of the maturity thereof pursuant to the Indenture, without the consent of the holder of each Note then outstanding and affected; (ii) reduce the aforesaid percentage of Notes, the holders of which are required to consent to any such supplemental indenture, or reduce the percentage of Notes, the holders of which are required to waive any default and its consequences, without the consent of the holder of each Note then outstanding and affected thereby; or (iii) modify any provision of Section 6.01(c) of the Indenture (except to increase the percentage of principal amount of securities required to rescind and annul any declaration of amounts due and payable under the Notes), without the consent of the holder of each Note then outstanding and affected thereby. The Indenture also contains provisions permitting the Holders of a majority in aggregate principal amount of the Notes of all series at the time outstanding affected thereby, on behalf of the Holders of the Notes of such series, to waive any past default in the performance of any of the covenants contained in the Indenture, or established pursuant to the Indenture with respect to such series, and its consequences, except a default in the payment of the principal of or premium, if any, or interest on any of the Notes of such series. Any such consent or waiver by the registered Holder of this Note (unless revoked as provided in the Indenture) shall be conclusive and binding upon such Holder and upon all future Holders and owners of this Note and of any Note issued in exchange herefor or in place hereof (whether by registration of transfer or otherwise), irrespective of whether or not any notation of such consent or waiver is made upon this Note.

No reference herein to the Indenture and no provision of this Note or of the Indenture shall alter or impair the obligation of the Company, which is absolute and unconditional, to pay the principal of and premium, if any, and interest on this Note at the time and place and at the rate and in the money herein prescribed.

As provided in the Indenture and subject to certain limitations therein set forth, this Note is transferable by the registered holder hereof on the Note Register of the Company, upon surrender of this Note for registration of transfer at the office or agency of the Company as may be designated by the Company accompanied by a written instrument or instruments of transfer in form satisfactory to the Company or the Trustee duly executed by the registered Holder hereof or his or her attorney duly authorized in writing, and thereupon one or more new Notes of authorized denominations and for the same aggregate principal amount and series will be issued to the designated transferee or transferees. No service charge will be made for any such transfer, but the Company may require payment of a sum sufficient to cover any tax or other governmental charge payable in relation thereto.

Prior to due presentment for registration of transfer of this Note, the Company, the Trustee, any paying agent and any Note Registrar may deem and treat the registered Holder hereof as the absolute owner hereof (whether or not this Note shall be overdue and notwithstanding any notice of ownership or writing hereon made by anyone other than the Note Registrar) for the purpose of receiving payment of or on account of the principal hereof and premium, if any, and interest due hereon and for all other purposes, and neither the Company nor the Trustee nor any paying agent nor any Note Registrar shall be affected by any notice to the contrary.

No recourse shall be had for the payment of the principal of or the interest on this Note, or for any claim based hereon, or otherwise in respect hereof, or based on or in respect of the Indenture, against any incorporator, stockholder, officer or director, past, present or future, as such,



of the Company or of any predecessor or successor corporation, whether by virtue of any constitution, statute or rule of law, or by the enforcement of any assessment or penalty or otherwise, all such liability being, by the acceptance hereof and as part of the consideration for the issuance hereof, expressly waived and released.

The Notes of this series are issuable only in registered form without coupons in denominations of \$1,000 and any integral multiple thereof. As provided in the Indenture and subject to certain limitations, Notes of this series are exchangeable for a like aggregate principal amount of Notes of this series of a different authorized denomination, as requested by the Holder surrendering the same.

All terms used in this Note which are defined in the Indenture shall have the meanings assigned to them in the Indenture.

This Note shall not be entitled to any benefit under the Indenture hereinafter referred to, be valid or become obligatory for any purpose until the Certificate of Authentication hereon shall have been signed by or on behalf of the Trustee.

IN WITNESS WHEREOF, the Company has caused this Instrument to be executed.

APPALACHIAN POWER COMPANY

By:

Assistant Treasurer

Attest:

By:

Assistant Secretary

CERTIFICATE OF AUTHENTICATION

This is one of the Notes of the series of Notes designated in accordance with, and referred to in, the within-mentioned Indenture.

Dated April 10, 2006

THE BANK OF NEW YORK

By: \_\_\_\_\_  
Authorized Signatory

FOR VALUE RECEIVED, the undersigned hereby sell(s), assign(s) and transfer(s) unto

(PLEASE INSERT SOCIAL SECURITY OR OTHER  
IDENTIFYING NUMBER OF ASSIGNEE)

\_\_\_\_\_

\_\_\_\_\_

(PLEASE PRINT OR TYPE NAME AND ADDRESS, INCLUDING ZIP CODE, OF

ASSIGNEE) the within Note and all rights thereunder, hereby

irrevocably constituting and appointing such person attorney to

transfer such Note on the books of the Issuer, with full

power of substitution in the premises.

Dated: \_\_\_\_\_

NOTICE: The signature to this assignment must correspond with the name as written upon the face of the within Note in every particular, without alteration or enlargement or any change whatever and NOTICE: Signature(s) must be guaranteed by a financial institution that is a member of the Securities Transfer Agents Medallion Program ("STAMP"), the Stock Exchange Medallion Program ("SEMP") or the New York Stock Exchange, Inc. Medallion Signature Program ("MSP").

## Exhibit C

### DESCRIPTION OF MOUNTAINEER PROJECT

The Project consists of solid waste disposal and recycling, sewage facilities, and air and water pollution control. These facilities consist of real estate, equipment and systems which have been or will be acquired, improved, installed, and constructed for use as solid waste disposal or recycling facilities, sewage facilities, or air and water pollution control facilities at Appalachian Power Company's Mountaineer Plant in Mason County, West Virginia

Solid waste disposal or recycling facilities collect, process, dispose and recycle solid wastes including, but not limited to, spent resin, fly ash, bottom ash, pyrites, flue gas scrubber wastes, trona wastes, contaminated soil, water pretreatment wastes and other solid wastes in accordance with applicable environmental regulations. The integrated components of the solid waste disposal and recycling facilities consist of bottom ash and fly ash collection, handling and disposal systems, scrubber waste collection, storage, handling and disposal systems, ash recycle systems, ash pond or landfill improvements and closures, and certain property that is functionally related and subordinate to the foregoing systems and components. These integrated facilities include process equipment, utilities or support systems and related structures and buildings. The facilities are property used for the collection, storage, treatment, handling, transportation, utilization, processing final disposal or recycling of solid waste.

Sewage facilities collect, handle, store, treat, and discharge industrial wastewater, sanitary wastewater, and storm water as required by applicable environmental regulations. The integrated components of the sewage facilities include without limitation, piping, sewers, wastewater collection systems, industrial or sanitary sewage systems, impoundments, oil/water separators, bioreactors and treatment units, clarifiers, sludge handling systems, discharge systems, related refinery auxiliary systems and certain property that is functionally related and subordinate to the foregoing systems and components. These facilities also include process equipment, utilities or support systems and related buildings and structures.

Pollution control facilities capture, reduce, and process air and water emissions including, but not limited to, flue gases, NOx, SOx, air-borne particulate matter, wastewater, and other pollutants in accordance with applicable environmental regulations. The pollution control facilities also include functionally related and subordinate auxiliaries, utilities, structures and buildings, associated electrical and mechanical systems, instrumentation and control systems, and site development. Due to evolving environmental rules and regulations, any of the pollution control systems and components may be modified or substituted with other facilities that perform the same or similar pollution control functions.

The capital cost of the Facilities is estimated to be no less than \$ 567,400,000.

## Exhibit D

### DESCRIPTION OF AMOS PROJECT

The Project consists of solid waste disposal and recycling, sewage facilities, and air and water pollution control. These facilities consist of real estate, equipment and systems which have been or will be acquired, improved, installed, and constructed for use as solid waste disposal or recycling facilities, sewage facilities, or air and water pollution control facilities at Appalachian Power Company's Amos Plant Units 1, 2 and 33.33% owned Unit 3 in Putnam County, West Virginia

Solid waste disposal or recycling facilities collect, process, dispose and recycle solid wastes including, but not limited to, spent resin, fly ash, bottom ash, pyrites, flue gas scrubber wastes, trona wastes, contaminated soil, water pretreatment wastes and other solid wastes in accordance with applicable environmental regulations. The integrated components of the solid waste disposal and recycling facilities consist of bottom ash and fly ash collection, handling and disposal systems, scrubber waste collection, storage, handling and disposal systems, ash recycle systems, ash pond or landfill improvements and closures, and certain property that is functionally related and subordinate to the foregoing systems and components. These integrated facilities include process equipment, utilities or support systems and related structures and buildings. The facilities are property used for the collection, storage, treatment, handling, transportation, utilization, processing final disposal or recycling of solid waste.

Sewage facilities collect, handle, store, treat, and discharge industrial wastewater, sanitary wastewater, and storm water as required by applicable environmental regulations. The integrated components of the sewage facilities include without limitation, piping, sewers, wastewater collection systems, industrial or sanitary sewage systems, impoundments, oil/water separators, bioreactors and treatment units, clarifiers, sludge handling systems, discharge systems, related refinery auxiliary systems and certain property that is functionally related and subordinate to the foregoing systems and components. These facilities also include process equipment, utilities or support systems and related buildings and structures.

Pollution control facilities capture, reduce, and process air and water emissions including, but not limited to, flue gases, NO<sub>x</sub>, SO<sub>x</sub>, air-borne particulate matter, wastewater, and other pollutants in accordance with applicable environmental regulations. The pollution control facilities also include functionally related and subordinate auxiliaries, utilities, structures and buildings, associated electrical and mechanical systems, instrumentation and control systems, and site development. Due to evolving environmental rules and regulations, any of the pollution control systems and components may be modified or substituted with other facilities that perform the same or similar pollution control functions.

The capital cost of the Facilities is estimated to be no less than \$835,000,000.

**APPALACHIAN POWER COMPANY AND SUBSIDIARIES**  
**CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS**  
For the Three and Six Months Ended June 30, 2007 and 2006  
(in thousands)  
(Unaudited)

EXHIBIT E

	Three Months Ended		Six Months Ended	
	2007	2006	2007	2006
<b>REVENUES</b>				
Electric Generation, Transmission and Distribution	\$ 499,189	\$ 464,058	\$ 1,100,735	\$ 1,024,051
Sales to AEP Affiliates	55,371	48,608	116,916	120,380
Other	2,850	1,922	5,487	4,598
<b>TOTAL</b>	<b>557,410</b>	<b>514,588</b>	<b>1,223,138</b>	<b>1,149,029</b>
<b>EXPENSES</b>				
Fuel and Other Consumables Used for Electric Generation	164,018	155,240	335,204	322,093
Purchased Electricity for Resale	34,328	29,979	70,278	57,595
Purchased Electricity from AEP Affiliates	144,630	103,457	272,231	225,856
Other Operation	75,125	77,156	142,754	147,057
Maintenance	51,414	46,668	97,167	84,507
Depreciation and Amortization	31,076	48,688	90,236	96,956
Taxes Other Than Income Taxes	22,975	22,799	44,250	45,891
<b>TOTAL</b>	<b>523,566</b>	<b>483,987</b>	<b>1,052,120</b>	<b>979,955</b>
<b>OPERATING INCOME</b>	<b>33,844</b>	<b>30,601</b>	<b>171,018</b>	<b>169,074</b>
<b>Other Income (Expense):</b>				
Interest Income	390	2,814	1,029	3,765
Carrying Costs Income	10,950	7,773	14,116	13,784
Allowance for Equity Funds Used During Construction	1,581	4,083	4,358	6,559
Interest Expense	(44,955)	(31,653)	(76,778)	(61,921)
<b>INCOME BEFORE INCOME TAXES</b>	<b>1,810</b>	<b>13,618</b>	<b>113,743</b>	<b>131,261</b>
Income Tax Expense (Credit)	(1,471)	3,971	40,235	48,020
<b>INCOME BEFORE EXTRAORDINARY LOSS</b>	<b>3,281</b>	<b>9,647</b>	<b>73,508</b>	<b>83,241</b>
Extraordinary Loss – Reapplication of Regulatory Accounting for Generation, Net of Tax	(78,763)	-	(78,763)	-
<b>NET INCOME (LOSS)</b>	<b>(75,482)</b>	<b>9,647</b>	<b>(5,255)</b>	<b>83,241</b>
Preferred Stock Dividend Requirements Including Capital Stock Expense	238	238	476	476
<b>EARNINGS (LOSS) APPLICABLE TO COMMON STOCK</b>	<b>\$ (75,720)</b>	<b>\$ 9,409</b>	<b>\$ (5,731)</b>	<b>\$ 82,765</b>

*The common stock of APCo is wholly-owned by AEP.*

*See Condensed Notes to Condensed Financial Statements of Registrant Subsidiaries beginning on page H-1.*

**APPALACHIAN POWER COMPANY AND SUBSIDIARIES**  
**CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN COMMON SHAREHOLDER'S**  
**EQUITY AND COMPREHENSIVE INCOME (LOSS)**  
**For the Six Months Ended June 30, 2007 and 2006**  
**(in thousands)**  
**(Unaudited)**

	<u>Common Stock</u>	<u>Paid-in Capital</u>	<u>Retained Earnings</u>	<u>Accumulated Other Comprehensive Income (Loss)</u>	<u>Total</u>
<b>DECEMBER 31, 2005</b>	\$ 260,458	\$ 924,837	\$ 635,016	\$ (16,610)	\$ 1,803,701
Common Stock Dividends			(5,000)		(5,000)
Preferred Stock Dividends			(400)		(400)
Capital Stock Expense and Other		80	(76)		4
<b>TOTAL</b>					<u>1,798,305</u>
<b>COMPREHENSIVE INCOME</b>					
<b>Other Comprehensive Income, Net of Taxes:</b>					
Cash Flow Hedges, Net of Tax of \$9,692				17,998	17,998
<b>NET INCOME</b>			83,241		<u>83,241</u>
<b>TOTAL COMPREHENSIVE INCOME</b>					<u>101,239</u>
<b>JUNE 30, 2006</b>	<u>\$ 260,458</u>	<u>\$ 924,917</u>	<u>\$ 712,781</u>	<u>\$ 1,388</u>	<u>\$ 1,899,544</u>
<b>DECEMBER 31, 2006</b>	\$ 260,458	\$ 1,024,994	\$ 805,513	\$ (54,791)	\$ 2,036,174
FIN 48 Adoption, Net of Tax			(2,685)		(2,685)
Common Stock Dividends			(25,000)		(25,000)
Preferred Stock Dividends			(400)		(400)
Capital Stock Expense and Other		76	(76)		-
<b>TOTAL</b>					<u>2,008,089</u>
<b>COMPREHENSIVE INCOME</b>					
<b>Other Comprehensive Income, Net of Taxes:</b>					
Cash Flow Hedges, Net of Tax of \$2,482				4,610	4,610
SFAS 158 Costs Established as a Regulatory Asset Related to the Reapplication of SFAS 71, Net of Tax of \$6,055				11,245	11,245
<b>NET LOSS</b>			(5,255)		<u>(5,255)</u>
<b>TOTAL COMPREHENSIVE INCOME</b>					<u>10,600</u>
<b>JUNE 30, 2007</b>	<u>\$ 260,458</u>	<u>\$ 1,025,070</u>	<u>\$ 772,097</u>	<u>\$ (38,936)</u>	<u>\$ 2,018,689</u>

See Condensed Notes to Condensed Financial Statements of Registrant Subsidiaries beginning on page H-1.

**APPALACHIAN POWER COMPANY AND SUBSIDIARIES**  
**CONDENSED CONSOLIDATED BALANCE SHEETS**

**ASSETS**

**June 30, 2007 and December 31, 2006**

(in thousands)

(Unaudited)

	<u>2007</u>	<u>2006</u>
<b>CURRENT ASSETS</b>		
Cash and Cash Equivalents	\$ 1,352	\$ 2,318
Accounts Receivable:		
Customers	176,758	180,190
Affiliated Companies	76,139	98,237
Accrued Unbilled Revenues	28,373	46,281
Miscellaneous	3,343	3,400
Allowance for Uncollectible Accounts	(8,779)	(4,334)
Total Accounts Receivable	<u>275,834</u>	<u>323,774</u>
Fuel	89,129	77,077
Materials and Supplies	71,994	56,235
Risk Management Assets	84,562	105,376
Accrued Tax Benefits	10,095	3,748
Regulatory Asset for Under-Recovered Fuel Costs	6,591	29,526
Prepayments and Other	17,266	20,126
<b>TOTAL</b>	<u>556,823</u>	<u>618,180</u>
<b>PROPERTY, PLANT AND EQUIPMENT</b>		
Electric:		
Production	3,487,306	2,844,803
Transmission	1,658,340	1,620,512
Distribution	2,309,637	2,237,887
Other	344,201	339,450
Construction Work in Progress	592,554	957,626
<b>Total</b>	<u>8,392,038</u>	<u>8,000,278</u>
Accumulated Depreciation and Amortization	<u>2,554,296</u>	<u>2,476,290</u>
<b>TOTAL - NET</b>	<u>5,837,742</u>	<u>5,523,988</u>
<b>OTHER NONCURRENT ASSETS</b>		
Regulatory Assets	675,027	622,153
Long-term Risk Management Assets	86,948	88,906
Deferred Charges and Other	163,892	163,089
<b>TOTAL</b>	<u>925,867</u>	<u>874,148</u>
<b>TOTAL ASSETS</b>	<u>\$ 7,320,432</u>	<u>\$ 7,016,316</u>

*See Condensed Notes to Condensed Financial Statements of Registrant Subsidiaries beginning on page H-1.*



**APPALACHIAN POWER COMPANY AND SUBSIDIARIES**  
**CONDENSED CONSOLIDATED BALANCE SHEETS**  
**LIABILITIES AND SHAREHOLDERS' EQUITY**  
**June 30, 2007 and December 31, 2006**  
**(Unaudited)**

	<u>2007</u>	<u>2006</u>
	<u>(in thousands)</u>	
<b>CURRENT LIABILITIES</b>		
Advances from Affiliates	\$ 247,616	\$ 34,975
Accounts Payable:		
General	232,509	296,437
Affiliated Companies	92,697	105,525
Long-term Debt Due Within One Year – Nonaffiliated	399,144	324,191
Risk Management Liabilities	59,720	81,114
Customer Deposits	64,285	56,364
Accrued Taxes	102,445	60,056
Other	260,549	172,943
<b>TOTAL</b>	<u>1,458,965</u>	<u>1,131,605</u>
<b>NONCURRENT LIABILITIES</b>		
Long-term Debt – Nonaffiliated	2,050,742	2,174,473
Long-term Debt – Affiliated	100,000	100,000
Long-term Risk Management Liabilities	58,768	64,909
Deferred Income Taxes	892,735	957,229
Regulatory Liabilities and Deferred Investment Tax Credits	487,643	309,724
Deferred Credits and Other	235,127	224,439
<b>TOTAL</b>	<u>3,825,015</u>	<u>3,830,774</u>
<b>TOTAL LIABILITIES</b>	<u>5,283,980</u>	<u>4,962,379</u>
Cumulative Preferred Stock Not Subject to Mandatory Redemption	<u>17,763</u>	<u>17,763</u>
Commitments and Contingencies (Note 4)		
<b>COMMON SHAREHOLDER'S EQUITY</b>		
Common Stock – No Par Value:		
Authorized – 30,000,000 Shares		
Outstanding – 13,499,500 Shares	260,458	260,458
Paid-in Capital	1,025,070	1,024,994
Retained Earnings	772,097	805,513
Accumulated Other Comprehensive Income (Loss)	(38,936)	(54,791)
<b>TOTAL</b>	<u>2,018,689</u>	<u>2,036,174</u>
<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>	<u>\$ 7,320,432</u>	<u>\$ 7,016,316</u>

*See Condensed Notes to Condensed Financial Statements of Registrant Subsidiaries beginning on page H-1.*