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S. Morris Hadden
William C. Bovender
William C. Argabrite
Jimmie Carpenter Miller
Mark S. Dessauer
Gregory K. Haden
Michael L. Forrester
Stephen M. Darden
Edward J. Webb, Jr.
James N.L. Humphreys
Suzanne Sweet Cook
Michael S. Lattier
Scott T. Powers
Leslie Tentler Ridings
Laura A. Steel
Christopher D. Owens

Teresa Mahan Lesnak
Matthew H. Wimberley
Lilian R. Abboud
Senitria A. Goodman
R. Lee McVey, II
Meredith Bates Humbert
Nathan M. Bays

COUNSEL
Chad W. Whitfield
Thomas R. Wilson
Michael A. Eastridge

Kingsport Office
1212 North Eastman Road
P.O. Box 3740
Kingsport, TN 37664-0740
Phone (423) 378-8800
Fax (423) 378-8804

Johnson City Office
1321 Sunset Drive
Building B, Suite 201
Johnson City, TN 37604
Phone (423) 283-6300
Fax (423) 283-6301

WRITER'S DIRECT DIAL NUMBER:
(423) 378-8858

WRITER'S E-MAIL ADDRESS:
bovender@hsdlaw.com
AMEP/Z.83646

December 11, 2007
VIA FEDERAL EXPRESS

PLEASE RESPOND TO:
KINGSPORT OFFICE

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

filed electronically in docket office on 12/11/07

Re: **TRA Docket No. 07-00245**
Application of Appalachian Power Company Seeking Approval
for Certain 2008 Financing Programs

Dear Ms. Dillon:

We are forwarding the original and thirteen copies of an Order issued by the Virginia State Corporation Commission approving Appalachian Power Company's application for authority to issue long-term debt to the public.

Should there be any questions, please contact the writer.

Very sincerely yours,

HUNTER, SMITH & DAVIS, LLP

William C. Bovender
Counsel for Appalachian Power Company

WCB/pl
Enclosures

Ms. Sharla Dillon, Docket Room Manager

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

COMMONWEALTH OF VIRGINIA
STATE CORPORATION COMMISSION
AT RICHMOND, DECEMBER 7, 2007

APPLICATION OF

APPALACHIAN POWER COMPANY

CASE NO. PUE-2007-00093

For authority to incur long-term debt

ORDER GRANTING AUTHORITY

On October 15, 2007, Appalachian Power Company ("APCO" or "Applicant") filed an application with the Virginia State Corporation Commission ("Commission") under Chapter 3 of Title 56 of the Code of Virginia for authority to issue long-term debt to the public. In conjunction, Applicant requests authority to enter into one or more interest rate hedging arrangements to protect against future interest rate movements in connection with the long-term debt securities to be issued. Furthermore, APCO requests authority to utilize interest rate management techniques by entering into various Interest Rate Management Agreements ("IRMAs"). Applicant has paid the requisite fee of \$250.

APCO proposes to issue secured or unsecured promissory notes ("Notes") up to the aggregate principal amount of \$700,000,000 from time to time through December 31, 2008. The Notes may be issued in the form of Senior Notes, Senior or Subordinated Debentures (including Junior Subordinated Debentures), Trust Preferred Securities or other unsecured promissory notes. Within certain limitations, APCO requests flexibility to select specific terms and conditions for the Notes based on market conditions at the time of issuance. The Notes will have maturities of not less than nine (9) months and not more than 60 years. The interest rate may be fixed or variable. The fixed rate of any note shall not exceed by more than 350 basis points the yield to maturity on United States

Treasury obligations of comparable maturity at the time of pricing of the Notes. The initial interest rate on any variable rate Note will not exceed 10% per annum.

APCO intends to sell the Notes (i) by competitive bidding; (ii) through negotiation with underwriters or agents; or (iii) by direct placement with a commercial bank or other institutional investor. Issuance costs for the Notes are estimated to be 1% of the principal amount issued. The proceeds from the issuance of the Notes will be used to redeem, directly or indirectly, long term debt; to refund, directly or indirectly, preferred stock; to repay short-term debt; to finance portions of environmental and pollution control facilities; to reimburse APCO's treasury for construction program expenditures; and for other proper corporate purposes.

Trust Preferred Securities would be issued by financing entities, which APCO would organize and own exclusively for the purpose of facilitating certain types of financings such as the issuance of tax advantaged preferred securities. The financing entities would issue Trust Preferred Securities to third parties. APCO requests approval of all necessary authorities to enable the issuance of Trust Preferred Securities.

APCO also requests authority to enter into agreements and assume obligations necessary for the payment of principal, interest, and other costs associated with the issuance and sale of up to \$19,500,000 of tax exempt pollution control revenue bonds ("Series K Bonds") by the Industrial Development Authority of Russell County, Virginia, (the "Authority") on behalf of Applicant. Costs associated with the Series K Bonds are estimated by Applicant to be approximately \$430,200, which may include, but not be limited to, trustee fees, legal fees, underwriting compensation, and bond insurance premium. Proceeds from the Series K Bonds will be applied to the refunding of up to

\$19,500,000 of outstanding Series H Bonds issued pursuant to Commission Order dated April 3, 2002, in Case No. PUF-1997-00035. The rate of interest on any Series K Bonds will not exceed a fixed rate 8.0% or an initial variable rate 8.0%. In addition, the initial public offering price on Series K Bonds shall be less than 95% of the principal amount issued.

In conjunction with the issuance of the Notes and Series K Bonds, Applicant requests authority, through December 31, 2008, to enter into one or more interest rate hedging arrangements to protect against future interest rate movements in connection with the issuance of the Notes and the Series K Bonds. Such hedging arrangements may include, but not be limited to, treasury lock agreements, forward-starting interest rate swaps, treasury put options, or interest rate collar agreements ("Treasury Hedges"). All Treasury Hedges will correspond to one or more of the Notes or Series K Bonds. Consequently, the cumulative notional amount of the Treasury Hedges cannot exceed \$700,000,000 for underlying Notes and \$19,500,000 for underlying Series K Bonds.

Finally, APCO requests a continuation of the authority granted in Case No. PUE-2006-00080 to utilize interest rate management techniques and enter into IRMAs through December 31, 2008.¹ The IRMAs will consist of interest rate swaps, caps, collars, floors, options, hedging forwards or futures, or any similar products designed and used to manage and minimize interest costs. IRMA transactions will be for a fixed period and based on a stated principal amount that corresponds to an underlying fixed or variable rate obligation of APCO, whether existing or anticipated. APCO will only enter IRMAs with counterparties that are highly rated financial institutions. The aggregate notional

¹ Pursuant to the Commission's Order Granting Authority, dated August 11, 2006, in Case No. PUE-2006-00080, APCO's existing authority to utilize IRMAs is set to expire after December 31, 2007.

amount of the IRMAs outstanding will not exceed 25% of APCO's existing debt obligations.

THE COMMISSION, upon consideration of the application, and having been advised by its Staff, is of the opinion and finds that approval of the application will not be detrimental to the public interest and should be granted.

Accordingly, IT IS ORDERED THAT:

(1) Applicant is hereby authorized under Chapter 3 and, to the extent necessary for Trust Preferred Securities, Chapter 4 of Title 56 of the Code of Virginia to issue and sell up to \$700,000,000 of Notes, from time to time during the period January 1, 2008, through December 31, 2008, for the purposes and under the terms and conditions set forth in the application.

(2) Applicant is hereby authorized to enter into agreements and assume obligations necessary for the payment of principal, interest, and costs associated with the issuance and sale of up to \$19,500,000 of tax exempt pollution control revenue bonds ("Series K Bonds") from the date of this Order through December 31, 2008, for the purposes and under the terms and conditions set forth in the application.

(3) Applicant is authorized to enter into the hedging agreements for the purposes set forth in its application and to the extent that the aggregate notional amount outstanding does not exceed \$700,000,000 for underlying Notes and \$19,500,000 for underlying Series K Bonds through December 31, 2008.

(4) Applicant is authorized to enter into IRMAs for the purposes set forth in its application and to the extent that the aggregate notional amount outstanding does not

exceed 25% of Applicant's total outstanding debt obligations during the period January 1, 2008, through December 31, 2008.

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

(6) The Commission reserves the right to examine the books and records of any affiliate in connection with the authority granted herein, whether or not such affiliate is regulated by this Commission.

(7) Applicant shall submit to the Clerk of the Commission a preliminary Report of Action within ten (10) days after the issuance of any security pursuant to this Order to include the type of security, the issuance date, the amount of the issue, the interest rate or yield, the maturity date, and any securities retired with the proceeds.

(8) Applicant shall submit to the Clerk of the Commission a preliminary Report of Action within ten (10) days after it enters into any hedging agreement or IRMA pursuant to Ordering Paragraphs (3) and (4) to include: the beginning and, if established, ending dates of the agreement, the notional amount, the underlying securities on which the agreement is based, an explanation of the general terms of the agreement that explain how the payment obligation is determined and when it is payable, and a calculation of the cumulative notional amount of all outstanding IRMAs as a percent of total debt outstanding.

(9) Within 60 days after the end of each calendar quarter in which any security is issued pursuant to this Order, Applicant shall file with the Clerk of the Commission a more detailed Report of Action to include: the type of security issued, the date and amount of each series, the interest rate or yield, the maturity date, net proceeds

to Applicant, an itemized list of expenses to date associated with each issue, a description of how the proceeds were used, a list of all hedging agreements and IRMAs associated the debt issued, and a balance sheet reflecting the actions taken.

(10) Applicant's Final Report of Action shall be due on or before March 1, 2009, to include the information required in Ordering Paragraph (8) in a cumulative summary of actions taken during the period authorized.

(11) This matter shall remain open and under the continued review, audit, and appropriate action of this Commission.

AN ATTESTED COPY hereof shall be sent by the Clerk of the Commission to: H. Allen Glover, Jr., Esquire, Woods Rogers PLC, P.O. Box 14125, Roanoke, Virginia 24038-4125; William E. Johnson, Senior Counsel, American Electric Power, 1 Riverside Plaza, Columbus, OH 43215-2373; C. Meade Browder, Jr., Senior Assistant Attorney General, Division of Consumer Counsel, Office of Attorney General, 900 East Main Street, Second Floor, Richmond, Virginia 23219; and to the Commission's Office of General Counsel and the Division of Economics and Finance.