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Chairman Eddie Roberson
Tennessee Regulatory Authority
460 James Robertson Parkway
Nashville, TN 37243-0505

ATTN: Sharla Dillon, Dockets & Records Manager

March 12, 2008
VIA FEDERAL EXPRESS

PLEASE RESPOND TO:
KINGSPORT OFFICE

RECEIVED
2008 APR -2 AM 7:39
T.R.A. DOCKET ROOM

RE: Application of Appalachian Power Company
Docket No. 08-00048

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 (1) consenting to and approving the issuance, sale and delivery by Appalachian of Refunding Bonds of up to \$125,275,000; and (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.

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

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
March 12, 2008

WCB/pl
Enclosure

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

In the Matter of the:

of : DOCKET No. 07

TO THE HONORABLE TENNESSEE REGULATORY AUTHORITY:

(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 County of Loudoun, and is properly qualified to transact business in the State of Tennessee.

(c) Appalachian maintains its principal office in the State of Tennessee at 1000 North Main Street, Suite 200, Kingsport, Tennessee 37660, in the City of Kingsport, Sullivan County.

(i) \$50,275,000 West Virginia Economic Development Authority, Solid Waste Disposal Facilities Revenue Bonds (Appalachian Power Company--Mountaineer Project) Series 2006A due February 1, 2036.

Waste Disposal Facilities Revenue Bonds (Appalachian Power
Company--Mountaineer Project) Series 2007A due May 1, 2037.

When Bonds are in the Auction Mode Rate, an auction agent conducts auctions at certain periods of less than 365 days (usually 7-, 28- or 35-day periods) to set the interest rate at which the Bonds will bear interest for the next period in accordance with auction procedures that are set forth in the indenture governing the Bonds. It is possible that if there are not sufficient acceptable bids, there could be a failed auction. In the event of a certain number of successive failed auctions, the auction rate on the Bonds could increase substantially.

3. The Bonds are insured by a financial guaranty insurance policy issued by either AMBAC Assurance Corporation, Financial Guaranty Insurance Company, MBIA Insurance Corporation or XL Capital Insurance Inc., each a municipal bond insurer, and the Bonds were rated by the rating agencies (Moody's Investors Service ("Moody's"), Standard & Poor's, a Division of the McGraw-Hill Companies, Inc. ("S&P") and Fitch Ratings ("Fitch")) based on the rating of the bond insurer. As a result of the subprime mortgage crisis, these bond insurers have recently been downgraded or are under watch for possible downgrade by one or more of the rating agencies. This has caused a lowering of the ratings on one or more of the Bonds and a decrease in the number of interested purchasers of the Bonds. This has caused the interest rates on the Bonds set by periodic auction to increase. In addition, these events have led to an increase in failed auctions where there are not enough buyers willing to purchase the bonds being auctioned, which has also increased the interest rate of the Bonds.

4. The terms of the Bonds generally provide that they may be converted from one interest rate mode to another interest rate mode (daily, weekly, commercial paper, long-term fixed rate, auction rate). While such conversions result in a change in interest rate modes, they are not refundings or reissuances of new securities and do not result in new series designations. As a result, remarketing of the Bonds generally does not require Authority approval.

5. Alternatively, uncertainty resulting from a number of factors, including market volatility, questions regarding bond insurers, capital market flexibility and other considerations, may require Appalachian to refund and reissue one or more series of the Bonds as new designated series. In order to avoid failed auctions and in order to have the flexibility to act quickly in the event one or more remarketings are not feasible, and with the consent and approval of the Virginia State Corporation Commission and the further consent and approval of your Honorable Authority, Appalachian proposes requests the authority through December 31, 2009, to refund any or all of the Bonds with Refunding Bonds. The Refunding Bonds would bear interest at a long-term fixed interest rate, or a variable rate mode such as a daily, weekly or commercial paper mode. Each series of Refunding Bonds would be reissued pursuant to the indenture (or substantially identical documentation) under which that particular series of current Bonds was issued, and under the installment agreement of sale or loan agreement (or substantially identical documentation, collectively, "Constituent Agreements") previously approved by this Authority in connection with the original issuance of that series current Bonds.

6. The price, maturity date(s), interest rate(s) and the redemption provisions and other terms of each series of Refunding Bonds (including the method of determining a variable rate of interest) would be determined by Appalachian, the applicable Issuing Authority and the purchasers of such Refunding Bonds. The Refunding Bonds may be issued initially with an interest rate that fluctuates on a weekly, monthly or other basis. Appalachian reserves the right to convert the Refunding Bonds to other interest rate modes.

7. It is contemplated that the Refunding Bonds would be sold in one or more underwritten public offerings, negotiated sales, or private placement transactions utilizing the customary and appropriate documentation.

The price, maturity date(s), interest rate(s), and the redemption provisions and other terms and provisions of each series of Refunding Bonds (including, in the event all or a portion of the Refunding 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 Authority, and the purchasers of such bonds. However, Appalachian will not agree, without further Order of this Authority, to the issuance of any series of Refunding 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.

8. Because of the historical spread between long-term fixed interest rates and short-term rates, all or a portion of the Refunding 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. Appalachian would reserve the option to convert any variable rate Refunding Bonds at a later date to other interest rate modes, including a fixed rate of interest. Refunding 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 Refunding 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.

9. 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 7 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.

10. 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.

11. 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 Constituent 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 Refunding Bonds (which will not exceed an aggregate principal amount of the

Refunding Bonds) plus accrued but unpaid interest and premium, if any, on such bonds.

12. 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 Refunding 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 cost of bond insurance that is paid in installments over the life of the bond is estimated to be no less than 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 9 and 10, thereby obviating the need to incur the costs associated with such structures.

13. Appalachian may enter into, from time to time through December 31, 2009, one or more interest rate hedging arrangements, including, but not limited to, treasury lock agreements, forward-starting interest rate swaps, treasury put options or interest rate collar agreements ("Hedge Agreement") to protect against future interest rate movements in connection with the issuance of the Refunding Bonds and Solid Waste Disposal Facilities Bonds (as defined below). Each Treasury Hedge Agreement will correspond to one or more Refunding Bonds and Solid Waste Disposal Facilities Bonds (as defined below) 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 the

aggregate principal amount of the Refunding Bonds and Solid Waste Disposal Facilities Bonds (as defined below).

14. Appalachian requests authority (i) to consummate and carry out the transactions proposed herein with respect to the refinancing of the Refunding Bonds and to enter into new or amended Constituent Agreements with the applicable Issuing Authority, all as proposed and described in this Application; and (ii) to enter into Treasury Hedge Agreements within the parameters proposed and described in this Application.

* * *

15. 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 A hereto), Appalachian's Amos Generating Station in Putnam County, West Virginia (as described in Exhibit B hereto, collectively, the "Project"), and for portions of other environmental and pollution control facilities, as applicable, in amounts up to \$200 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.

16. 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, 2009. 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. The authority requested herein is identical to the authority this Authority granted to Appalachian to issue up to \$200 million Solid Waste Disposal Facilities Bonds through December 31, 2008 in TRA Docket No. 07-00245 (the "Prior Order"). Appalachian may not be able to utilize the authority set forth in the Prior Order due to the limited duration of that authority and due to the overall financing cap set forth in the Prior Order. Therefore, Appalachian herein requests identical authority to issue up to \$200 million Solid Waste Disposal Facilities Bonds through December 31, 2009, subject to the same terms and conditions of the Refunding Bonds described in sections 2-12 above.

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.

17. 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.

18. 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.


19. Appalachian requests authority to consummate and carry out the transactions proposed herein with respect to the issuance of Solid Waste Disposal Facilities Bonds and to enter into the requisite agreements with the WVEDA, all as proposed and described in this Application. 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.

20. Balance Sheets and Statements of Income and Retained Earnings for the twelve months ended December 31, 2007 are attached hereto as Exhibit C.

21. The issuance of the Refunding Bonds and Solid Waste Disposal Facilities Bonds 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 Refunding Bonds of up to \$125,275,000 pursuant to documentation substantially in the form previously approved by this Authority; (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 

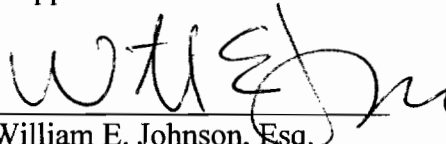
Renee V. Hawkins
Assistant Treasurer

Dated: March 10, 2008



William C. Bevender, Esq.
Hunter, Smith & Davis LLP
P.O. Box 3740
Kingsport, TN 37664

Attorneys for Applicant:




William E. Johnson, Esq.
American Electric Power Service
Corporation
P.O. Box 16631
Columbus, OH 43216-6631

STATE OF OHIO)
) ss:
COUNTY OF FRANKLIN)

Before me, Leslye R. Creek, a Notary Public in and for the State and County aforesaid, this 10th day of March, 2008, personally appeared Renee V. Hawkins, 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 10th day of March, 2008.


Notary Public



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

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, NO_x, SO_x, 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.

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_x, SO_x, 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
CONSOLIDATED STATEMENTS OF INCOME
For the Years Ended December 31, 2007, 2006 and 2005
(in thousands)

	2007	2006	2005
REVENUES			
Electric Generation, Transmission and Distribution	\$ 2,333,448	\$ 2,145,639	\$ 1,845,170
Sales to AEP Affiliates	263,066	238,592	322,333
Other	10,755	9,797	8,770
TOTAL	<u>2,607,269</u>	<u>2,394,028</u>	<u>2,176,273</u>
EXPENSES			
Fuel and Other Consumables Used for Electric Generation	708,127	638,862	549,773
Purchased Electricity for Resale	165,901	123,592	110,693
Purchased Electricity from AEP Affiliates	600,293	492,756	453,600
Other Operation	319,260	284,350	315,605
Maintenance	204,763	190,697	179,119
Depreciation and Amortization	197,259	205,666	191,128
Taxes Other Than Income Taxes	90,840	92,462	92,967
TOTAL	<u>2,286,443</u>	<u>2,028,385</u>	<u>1,892,885</u>
OPERATING INCOME	320,826	365,643	283,388
Other Income (Expense):			
Interest Income	2,676	8,648	2,540
Carrying Costs Income	30,179	25,666	14,438
Allowance for Equity Funds Used During Construction	7,337	12,014	7,956
Interest Expense	<u>(165,405)</u>	<u>(129,106)</u>	<u>(106,301)</u>
INCOME BEFORE INCOME TAXES	195,613	282,865	202,021
Income Tax Expense	<u>62,114</u>	<u>101,416</u>	<u>66,189</u>
INCOME BEFORE EXTRAORDINARY LOSS AND CUMULATIVE EFFECT OF ACCOUNTING CHANGE	133,499	181,449	135,832
EXTRAORDINARY LOSS – REAPPLICATION OF REGULATORY ACCOUNTING FOR GENERATION, NET OF TAX	(78,763)	-	-
CUMULATIVE EFFECT OF ACCOUNTING CHANGE, NET OF TAX	<u>-</u>	<u>-</u>	<u>(2,256)</u>
NET INCOME	54,736	181,449	133,576
Preferred Stock Dividend Requirements Including Capital Stock Expense and Other	<u>952</u>	<u>952</u>	<u>2,178</u>
EARNINGS APPLICABLE TO COMMON STOCK	<u>\$ 53,784</u>	<u>\$ 180,497</u>	<u>\$ 131,398</u>

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

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

APPALACHIAN POWER COMPANY AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN COMMON SHAREHOLDER'S
EQUITY AND COMPREHENSIVE INCOME (LOSS)
For the Years Ended December 31, 2007, 2006 and 2005
(in thousands)

	Common Stock	Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total
DECEMBER 31, 2004	\$ 260,458	\$ 722,314	\$ 508,618	\$ (81,672)	\$ 1,409,718
Capital Contribution from Parent		200,000			200,000
Common Stock Dividends			(5,000)		(5,000)
Preferred Stock Dividends			(800)		(800)
Capital Stock Expense and Other		2,523	(1,378)		1,145
TOTAL					<u>1,605,063</u>
COMPREHENSIVE INCOME					
Other Comprehensive Income (Loss), Net of Taxes:					
Cash Flow Hedges, Net of Tax of \$3,821				(7,097)	(7,097)
Minimum Pension Liability, Net of Tax of \$38,855				72,159	72,159
NET INCOME			133,576		<u>133,576</u>
TOTAL COMPREHENSIVE INCOME					<u>198,638</u>
DECEMBER 31, 2005	260,458	924,837	635,016	(16,610)	1,803,701
Capital Contribution from Parent		100,000			100,000
Common Stock Dividends			(10,000)		(10,000)
Preferred Stock Dividends			(800)		(800)
Capital Stock Expense and Other		157	(152)		5
TOTAL					<u>1,892,906</u>
COMPREHENSIVE INCOME					
Other Comprehensive Income (Loss), Net of Taxes:					
Cash Flow Hedges, Net of Tax of \$7,471				13,874	13,874
Minimum Pension Liability, Net of Tax of \$7				(14)	(14)
NET INCOME			181,449		<u>181,449</u>
TOTAL COMPREHENSIVE INCOME					<u>195,309</u>
Minimum Pension Liability Elimination, Net of Tax of \$109				203	203
SFAS 158 Adoption, Net of Tax of \$28,132				(52,244)	(52,244)
DECEMBER 31, 2006	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			(799)		(799)
Capital Stock Expense and Other		155	(153)		2
TOTAL					<u>2,007,692</u>
COMPREHENSIVE INCOME					
Other Comprehensive Income (Loss), Net of Taxes:					
Cash Flow Hedges, Net of Tax of \$1,829				(3,397)	(3,397)
SFAS 158 Adoption Costs Established as a Regulatory Asset Related to the Reapplication of SFAS 71, Net of Tax of \$6,055				11,245	11,245
Pension and OPEB Funded Status, Net of Tax of \$6,330				11,756	11,756
NET INCOME			54,736		<u>54,736</u>
TOTAL COMPREHENSIVE INCOME					<u>74,340</u>
DECEMBER 31, 2007	<u>\$ 260,458</u>	<u>\$ 1,025,149</u>	<u>\$ 831,612</u>	<u>\$ (35,187)</u>	<u>\$ 2,082,032</u>

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

APPALACHIAN POWER COMPANY AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

ASSETS

December 31, 2007 and 2006

(in thousands)

	<u>2007</u>	<u>2006</u>
CURRENT ASSETS		
Cash and Cash Equivalents	\$ 2,195	\$ 2,318
Accounts Receivable:		
Customers	176,834	180,190
Affiliated Companies	113,582	98,237
Accrued Unbilled Revenues	38,397	46,281
Miscellaneous	2,823	3,400
Allowance for Uncollectible Accounts	(13,948)	(4,334)
Total Accounts Receivable	<u>317,688</u>	<u>323,774</u>
Fuel	82,203	77,077
Materials and Supplies	76,685	56,235
Risk Management Assets	64,707	105,376
Regulatory Asset for Under-Recovered Fuel Costs	-	29,526
Prepayments and Other	19,675	23,874
TOTAL	<u>563,153</u>	<u>618,180</u>
PROPERTY, PLANT AND EQUIPMENT		
Electric:		
Production	3,625,788	2,844,803
Transmission	1,675,081	1,620,512
Distribution	2,372,687	2,237,887
Other	351,827	339,450
Construction Work in Progress	713,063	957,626
Total	<u>8,738,446</u>	<u>8,000,278</u>
Accumulated Depreciation and Amortization	2,591,833	2,476,290
TOTAL - NET	<u>6,146,613</u>	<u>5,523,988</u>
OTHER NONCURRENT ASSETS		
Regulatory Assets	652,739	622,153
Long-term Risk Management Assets	74,954	88,906
Deferred Charges and Other	191,871	163,089
TOTAL	<u>919,564</u>	<u>874,148</u>
TOTAL ASSETS	<u>\$ 7,629,330</u>	<u>\$ 7,016,316</u>

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

APPALACHIAN POWER COMPANY AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
LIABILITIES AND SHAREHOLDERS' EQUITY
December 31, 2007 and 2006

	<u>2007</u>	<u>2006</u>
	<u>(in thousands)</u>	
CURRENT LIABILITIES		
Advances from Affiliates	\$ 275,257	\$ 34,975
Accounts Payable:		
General	241,871	296,437
Affiliated Companies	106,852	105,525
Long-term Debt Due Within One Year -- Nonaffiliated	239,732	324,191
Risk Management Liabilities	54,955	81,114
Customer Deposits	50,260	56,364
Accrued Taxes	58,519	60,056
Other	181,175	172,943
TOTAL	<u>1,208,621</u>	<u>1,131,605</u>
NONCURRENT LIABILITIES		
Long-term Debt -- Nonaffiliated	2,507,567	2,174,473
Long-term Debt -- Affiliated	100,000	100,000
Long-term Risk Management Liabilities	47,416	64,909
Deferred Income Taxes	948,891	957,229
Regulatory Liabilities and Deferred Investment Tax Credits	505,556	309,724
Deferred Credits and Other	211,495	224,439
TOTAL	<u>4,320,925</u>	<u>3,830,774</u>
TOTAL LIABILITIES	<u>5,529,546</u>	<u>4,962,379</u>
Cumulative Preferred Stock Not Subject to Mandatory Redemption	<u>17,752</u>	<u>17,763</u>
Commitments and Contingencies (Note 6)		
COMMON SHAREHOLDER'S EQUITY		
Common Stock -- No Par Value:		
Authorized -- 30,000,000 Shares		
Outstanding -- 13,499,500 Shares	260,458	260,458
Paid-in Capital	1,025,149	1,024,994
Retained Earnings	831,612	805,513
Accumulated Other Comprehensive Income (Loss)	(35,187)	(54,791)
TOTAL	<u>2,082,032</u>	<u>2,036,174</u>
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	<u>\$ 7,629,330</u>	<u>\$ 7,016,316</u>

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