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April 1, 2008  
**VIA EMAIL**

**PLEASE RESPOND TO:**  
KINGSPORT OFFICE

filed electronically in docket office 4/2/2008

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

ATTN: Sharla Dillon, Dockets & Records Manager

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

Dear Chairman Roberson:

We attach herewith the Order of the Virginia State Corporation Commission authorizing the financial transactions which Appalachian Power Company has requested approval of in the matter styled *Application of Appalachian Power Company For Authority to Issue Securities Under Chapter 3 of Title 56 of the Code of Virginia, Case No.PUE-2008-00016*. While we are filing this electronically, we shall follow-up with one original and four copies for Thursday, 04/03/08 delivery.

We respectfully request this matter be considered at the earliest possible time as Appalachian Power Company awaits said approval to proceed.

Thank you for your consideration.

Very sincerely yours,

**HUNTER, SMITH & DAVIS, LLP**

William C. Bovender

Chairman Eddie Roberson

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WCB/pl

Enclosure

cc: Darlene Standley (via email, w/enc.)  
Richard Collier, Esq. (via email, w/enc.)  
William E. Johnson, Esq. (via email, w/enc.)  
James R. Bacha, Esq. (via email, w/enc.)  
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COMMONWEALTH OF VIRGINIA  
STATE CORPORATION COMMISSION

080330074

DOCUMENT CONTROL

AT RICHMOND, MARCH 21, 2008

2008 MAR 21 P 2:52

APPLICATION OF

APPALACHIAN POWER COMPANY

CASE NO. PUE-2008-00016

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

ORDER GRANTING AUTHORITY

On March 3, 2008, Appalachian Power Company ("APCO" or "Applicant"), filed an application with the State Corporation Commission ("Commission") requesting authority to issue securities under Chapter 3 of Title 56 of the Code of Virginia ("Code"). Applicant requests authority to assume certain obligations and to enter into various agreements to support the issuance of up to \$212,775,000 of Refunding Tax Exempt Bonds ("Refunding Bonds") and up to \$200,000,000 of tax-exempt Solid Waste Disposal Facility Bonds ("SWDF Bonds") (collectively Tax Exempt Bonds). Applicant paid the requisite fee of \$250.

APCO states that the purpose of the Refunding Bonds is to refund five separate series of previously authorized and outstanding solid waste disposal facility bonds ("Original Bonds") issued by the West Virginia Economic Development Authority (the "Authority"), Putnam County, West Virginia, and Russell County Virginia (collectively, "Issuing Authorities"). The Original Bonds were issued in auction rate mode, which provides a short-term interest rate on the debt securities that are re-auctioned and re-priced, usually at 7-, 28-, or 35-day intervals. Bond insurance was acquired at the time of issuance to facilitate a liquid market of buyers for the periodic re-issuance and re-pricing of the Original Bonds at the time of auction. However, the

liquidity of this market vanished after the sub-prime mortgage crisis which impaired the credit quality of the underlying bond insurers and severely reduced the number of interested buyers of the Original Bonds at the time of re-auction. This has led to higher interest rates on the Original Bonds pursuant to failed auction provisions in the associated bond loan agreements.

Authority was granted for the Original Bonds to be convertible to fixed or variable rate interest mode. However, the need to refund the Original Bonds is due to the fact that the underlying bond insurance on them is non-cancelable. Therefore, the negative impaired credit implications of the underlying insurers would adversely impact the Original Bonds in whatever interest rate mode they exist. The Original Bonds are redeemable at par. The Company's request to refund the Original Bonds would extinguish the associated credit impaired bond insurance and remove any detrimental interest rate implications for the Refunding Bonds. The Refunding Bonds would be issued in the same amounts, by the same Issuing Authorities with proceeds used for the same purposes as authorized for the Original Bonds.

Applicant states that its request for authority to issue up to \$200,000,000 SWDF Bonds through December 31, 2009, is to preserve its access to low cost and limited tax-exempt financing for eligible portions of pollution control projects at its Mountaineer and Amos generating stations. Applicant intends to file with the Authority for a carry forward ("Carry Forward") of up to \$200,000,000 from the West Virginia state ceiling for private activity bonds. If the Carry Forward is granted, Applicant states that it has authority by Commission Order dated December 7, 2008, in Case No. PUE-2007-00093, to issue up to \$200 million of bonds to finance pollution control projects through December 31, 2008. However, Applicant states that it may not be able to utilize that existing authority for the amount of tax-exempt financing desired due to the limited duration of that existing authority and the overall financing cap set out by the

Commission's Order in Case No. PUE-2007-00093. Therefore, Applicant is requesting identical authority to issue up to \$200,000,000 of SWDF Bonds through December 31, 2009, subject to the same terms and conditions as the Refunding Bonds.

Proceeds from the Tax Exempt Bonds would be loaned by the Issuing Authorities to APCO, pursuant to one or more installment agreements of sale or loan agreements (collectively, "Loan Agreement") between the Issuing Authorities and APCO, to provide financing for portions of Applicant's environmental and pollution control facilities at the various sites for which the Tax Exempt Bonds are designated.

Under the terms of any Loan Agreement, Applicant would assume the obligation to pay the principal, interest, and any premium on the Tax Exempt Bonds. In addition, Applicant may enter into one or more guarantee agreements, bond insurance agreements, and other similar arrangements assigned to the Trustee to guarantee repayment of any part of the related obligations under one or more series of Tax Exempt Bonds.

To obtain the most advantageous financing based on market conditions at the time of issuance, Applicant requests broad authority to negotiate terms and conditions of the Tax Exempt Bond obligations to be assumed by APCO. The Tax Exempt Bonds will be sold in one or more underwritten public offerings, negotiated sales, or private placement transactions. The Tax Exempt Bonds may be issued as fixed rate or variable rate debt. However, no Tax Exempt Bonds will be issued with a fixed rate in excess of 8.0% or with an initial variable rate in excess of 8.0%. The stated maturity on any Tax Exempt Bonds will not exceed forty (40) years. Any discount from the initial offering price of Tax Exempt Bonds will not exceed 5% of the principal amount. Applicant estimates that issuance costs for the Tax Exempt Bonds will be approximately \$4,188,560.

If a variable rate option is chosen, the Tax Exempt Bonds may include provisions to convert to other interest rate modes, including a fixed rate of interest. In addition, the Tax Exempt Bonds may include a tender purchase provision that would require Applicant to enter into one or more remarketing agreements (“Remarketing Agreement”) with one or more remarketing agents. To provide immediate funding to pay for bonds tendered for purchase under its Remarketing Agreement, Applicant may need to enter into one or more liquidity or credit facilities (“Credit Facility”) with one or more banks or other financial institutions (“Bank”). Applicant may also be required to execute and deliver to the Bank a note evidencing APCO’s payment obligations under the Credit Facility.

In lieu of or in addition to the Credit Facility, Applicant may utilize one or more alternative credit facilities (“Alternative Facility”) to provide additional or alternative means of credit support for variable rate Tax Exempt Bonds. A Credit Facility or Alternative Facility may be in the form of a letter of credit, revolving credit agreement, bond purchase agreement, or other similar arrangement through one or more Banks.

Finally, Applicant requests authority to enter into one or more interest rate hedging arrangements (“Hedge Agreements”) from time to time through December 31, 2009. The purpose of the Hedge Agreements would be to protect against future interest rate movements when the Tax Exempt Bonds are issued. The Hedge Agreements may be in the form of treasury lock agreements, forward-starting interest rate swaps, treasury put options or interest rate collar agreements. The aggregate principal amount of all Hedge Agreements will not exceed the corresponding amount of Tax Exempt Bonds, up to \$412,775,000.

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

IT IS ORDERED THAT:

1) Applicant is hereby authorized to assume the types of obligations and enter into the various types of agreements requested in its application for the purpose of supporting the issuance and guaranteeing the repayment of up to \$212,775,000 of Refunding Bonds and up to \$200,000,000 of SWDF Bonds issued by the Issuing Authorities on behalf of APCO in the manner and for the purposes as set forth in its application, through the period ending December 31, 2009.

2) Applicant shall submit a Preliminary Report of Action within ten (10) days after the issuance of any securities pursuant to Ordering Paragraph (1), to include the type of security, the issuance date, the amount issued, the interest rate, the maturity date, and a brief explanation of reasons for the term of maturity chosen.

3) Within sixty (60) days after the end of each calendar quarter in which any of the Tax Exempt Bonds are issued or supporting arrangements are entered into pursuant to Ordering Paragraph (1), Applicant shall file with the Commission a detailed Report of Action with respect to all Tax Exempt Bonds issued during the calendar quarter to include:

- (a) The issuance date, type of security, amount issued, interest rate along with any spread, index, and repricing period for a variable rate, date of maturity, issuance expenses realized to date, net proceeds to Applicant;

- (b) A summary of the specific terms and conditions of each supporting arrangement related to the Tax Exempt Bonds such as any Credit Facility, Alternative Facility, and Hedging Agreement;
- (c) A copy of each Loan Agreement pertaining to all Tax Exempt Bond proceeds received to date, which may be omitted from subsequent reports after initial submission; and
- (d) The cumulative principal amount of Tax Exempt Bonds issued to date and the amount remaining to be issued.

4) Applicant shall file a final Report of Action on or before March 31, 2010, to include all information required in Ordering Paragraph (3) along with a balance sheet that reflects the capital structure following the obligations assumed for the Tax Exempt Bonds issued.

Applicant's final Report of Action shall further provide a detailed account of all the actual expenses and fees paid to date associated with the Tax Exempt Bonds with an explanation of any variances from the estimated expenses contained in the Financing Summary attached to the application.

5) Approval of the application shall have no implications for ratemaking purposes.

6) This matter shall be continued, subject to the continuing review, audit, and appropriate directive of the Commission.

AN ATTESTED COPY hereof shall be sent by the Clerk of the Commission to: H. Allen Glover, Jr., Esquire, Woods Rogers, Wachovia Tower, Suite 1400, 10 South Jefferson Street, Roanoke, Virginia 24011; William E. Johnson, Senior Counsel, American Electric Power, 1 Riverside Plaza, Columbus, Ohio 43215-2373; and to the Commission's Division of Economics and Finance.

True Copy  
Teste:

  
Clerk of the  
State Corporation Commission