

BEFORE THE TENNESSEE REGULATORY AUTHORITY

NASHVILLE, TENNESSEE

May 16, 2008

IN RE:

**AMENDED APPLICATION OF APPALACHIAN
POWER COMPANY FOR ISSUANCE OF REFUNDING
BONDS OF UP TO \$195,275,000 AND ASSUMPTION OF
OBLIGATIONS UP TO \$200,000,000 THROUGH
DECEMBER 2009**

**DOCKET NO.
08-00048**

ORDER APPROVING FINANCING TRANSACTIONS

This matter came before Director Tre Hargett, Director Sara Kyle and Director Ron Jones of the Tennessee Regulatory Authority (the “Authority” or “TRA”), the voting panel assigned to this docket, at a regularly scheduled Authority Conference held on April 21, 2008 for consideration of the application filed on April 2, 2008 and amended on April 11, 2008 (*“Amended Application”*) by Appalachian Power Company (“Appalachian” or “Applicant”) seeking approval for the issuance, sale, and delivery of certain refunding bonds and certain other financial transactions.

Appalachian is a Virginia corporation with its principal offices in Roanoke, Virginia. Although the majority of Appalachian’s customers are located in Virginia, Appalachian is authorized to transact business in Tennessee and provides power to Kingsport Power Company. Both Appalachian and Kingsport Power Company (“Kingsport”) are wholly-owned subsidiaries of American Electric Power Company, Inc., a publicly traded holding company registered under the repealed Public Utility Holding Company Act of 1935.

Appalachian and Kingsport are separate legal entities and finance their operations separately. Kingsport purchases all of its power requirements from Appalachian at wholesale rates under a Federal Energy Regulatory Commission approved tariff and receives some services from Appalachian, at cost, pursuant to the rules of the Securities and Exchange Commission.

The Amended Application

Appalachian seeks approval to issue refunding bonds to replace \$195,275,000 of auction rate debt and assume certain obligations under various agreements for an amount not to exceed \$200,000,000 in connection with the issuance of Solid Waste Disposal Facilities Bonds by the West Virginia Economic Development Authority ("WVEDA"). The purpose of the refunding bonds is to replace bonds that are in auction rate mode and insured by bond insurers that have been downgraded or are under watch for downgrade by ratings agencies due to their exposure to the subprime mortgage crisis. The Applicant states that 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 or reissue one or more series of the bonds as a new designated series.

The refunding bonds would bear interest at a long-term fixed 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 bonds was issued, and under the installment agreement of sale or loan agreement or substantially identical documentation previously approved by this Authority in connection with the original issuance of that series of bonds. The price, maturity date(s), interest rate(s) and the redemptive 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. Appalachian reserves the right to convert the refunding bonds to other interest rate modes.

Appalachian also requests approval to assume obligations in an aggregate amount not to exceed \$200,000,000 in connection with Solid Waste Disposal Bonds issued by WVEDA. Appalachian proposes to finance portions of environmental and pollution control facilities at Appalachian's Mountaineer Generating Station in Mason County, West Virginia, Appalachian's Amos Generating Station in Putman County, West Virginia, and portions of other environmental and pollution control facilities, as applicable. The WVEDA Bonds will allow for tax-exempt financing of pollution control facilities, resulting in lower costs.

From time to time through December 31, 2009, Appalachian may enter into one or more interest rate hedging arrangements, including, but not limited to treasury lock agreements, forward-starting interest rate swaps, treasury put options or interest rate collar agreements to protect against future interest rate movements in connection with the issuance of the refunding bonds and Solid Waste Disposal Facilities Bonds.

Findings and Conclusions

Tenn. Code Ann. § 65-4-109 (2004) provides

No public utility shall issue any stocks, stock certificates, bonds, debentures, or other evidences of indebtedness payable in more than one (1) year from the date thereof, until it shall have first obtained authority from the authority for such proposed issue. It shall be the duty of the authority after hearing to approve any such proposed issue maturing more than one (1) year from the date thereof upon being satisfied that the proposed issue, sale and delivery is to be made in accordance with law and the purpose of such be approved by the authority.

At a regularly scheduled Authority Conference held on April 21, 2007, the panel voted unanimously to approve the *Amended Application* and made the following findings:

1. The proposed financing agreements are subject to Authority approval pursuant to Tenn. Code Ann. § 65-4-109 (2004);

2. The proposed financing transactions are being made in accordance with laws enforceable by this agency;

3. The proposed financing transactions are in the public interest because they will provide Appalachian access to tax exempt financing and allow a response to changing market conditions.

IT IS THEREFORE ORDERED THAT:

1. Appalachian Power Company is authorized to enter into the financing transactions as described in the *Amended Application* and discussed herein.

2. Appalachian Power Company shall be bound by the same filing requirements imposed by the Virginia State Corporation.

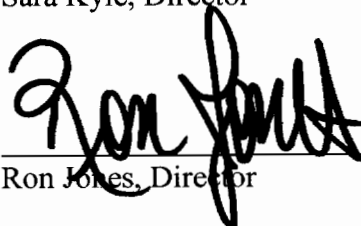
3. The authorization and approval given hereby shall not be used by any party for the purpose of inferring an analysis or assessment of the risks involved. This decision is not intended to create any liability on the part of the Tennessee Regulatory Authority, the State of Tennessee or any political subdivision thereof.



Tre Hargett, Director



Sara Kyle, Director



Ron Jones, Director