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November 20, 2008
VIA FEDERAL EXPRESS

RECEIVED
2008 NOV 21 P. 1:28
T.R.A. DOCKET ROOM

Tre Hargett, Chairman
ATTN: Sharla Dillion, Dockets & Records Manager
460 James Robertson Parkway
Nashville, TN 37243-0505

Re: Application of Appalachian Power Company
Docket No.: 08-00194

Dear Chairman Hargett:

We submit herewith the thirteen (13) copies of the Order issued by the Virginia State Corporation Commission on November 18, 2008, approving the application of Appalachian Power Company to issue long term debt/financing in 2009.

The financing structure approved by the Virginia Commission is identical to the authority sought from the Tennessee Regulatory Authority.

Timing is especially critical this year because of the extreme volatility of the capital markets and their sporadic availability.

We would respectfully request that Appalachian Power Company's Amended and Restated Application be considered at the December 15, 2008 conference. Approval of same by the Directors on that date would permit Appalachian to issue into the market the first week of January, 2009.

Thank you for your consideration.

Very sincerely yours,

HUNTER, SMITH & DAVIS, LLP

William C. Bovender
Counsel for Appalachian Power Company

Page 2
November 20, 2008

WCB/slb
Enclosures

cc: William E. Johnson, Esq. (via email)
James R. Bacha, Esq. (via email)

COMMONWEALTH OF VIRGINIA
STATE CORPORATION COMMISSION

AT RICHMOND, NOVEMBER 18, 2008

APPLICATION OF

APPALACHIAN POWER COMPANY

2008 NOV 18 P 1:41
CASE NO. PUE-2008-00103

For authority to incur
long-term debt

ORDER GRANTING AUTHORITY

On October 24, 2008, 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"). By letter filed November 7, 2008, APCO amended its application to withdraw its request for authority to issue debt securities in the form of auction mode bonds. 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 \$500,000,000 from time to time through December 31, 2009. The Notes may be issued in the form of First Mortgage Bonds, Senior Notes, Senior or 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.

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 1.0% 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 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 \$50,000,000 of Solid Waste Disposal Facilities Bonds ("SWDF Bonds") by the West Virginia Economic Development Authority (the "Authority") on behalf of Applicant. Costs associated with the SWDF Bonds are estimated by Applicant to be proximately \$2,435,500, which may include, but not be limited to, trustee fees, legal fees, underwriting compensation, and rating agency fees. Proceeds from the SWDF Bonds will be applied to finance portions of environmental and pollution control facilities at APCO's Amos Generating Station in Putnam County, West Virginia. Without further Order of this Commission, the rate of interest on any SWDF Bonds will not exceed a fixed rate of 10.0% or an initial variable rate of 10.0%. In

addition, the initial public offering price on the SWDF Bonds shall be less than 95% of the principal amount issued.

In conjunction with the issuance of the Notes and SWDF Bonds, Applicant requests authority, through December 31, 2009, 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 SWDF 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 SWDF Bonds. Consequently, the cumulative notional amount of the Treasury Hedges cannot exceed \$500,000,000 for underlying Notes and \$50,000,000 for underlying SWDF Bonds.

Finally, APCO requests a continuation of the authority granted in Case No. PUE-2007-00093 to utilize interest rate management techniques and enter into IRMAs through December 31, 2009.² 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 into IRMAs with counterparties that are highly rated financial institutions. The aggregate notional amount of the IRMAs outstanding will not exceed 25% of APCO's existing debt obligations.

² Pursuant to the Commission's Order Granting Authority dated December 7, 2007, in Case No. PUE-2007-00093, APCO's existing authority to utilize IRMAs is set to expire after December 31, 2008.

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

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 \$500,000,000 of Notes, from time to time during the period January 1, 2009, through December 31, 2009, 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 \$50,000,000 of SWDF Bonds from the date of this Order through December 31, 2009, for the purposes and under the terms and conditions set forth in the application.

(3) Applicant is authorized to enter into hedging agreements for the purposes set forth in its application and to the extent that the aggregate notional amount outstanding does not exceed \$500,000,000 for underlying Notes and \$50,000,000 for underlying SWDF Bonds through December 31, 2009.

(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, 2009, through December 31, 2009.

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

(6) 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.

(7) 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.

(8) 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.

(9) Applicant's Final Report of Action shall be due on or before March 1, 2010, to include the information required in Ordering Paragraph (8) in a cumulative summary of actions taken during the period authorized.

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

(11) The Commission reserves the right to examine the books and records of any affiliate, whether or not such affiliate is regulated by this Commission, in connection with the authority granted herein, pursuant to §56-79 of the Code of Virginia.

(12) This matter shall remain 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: William E. Johnson, Senior Counsel, American Electric Power, 1 Riverside Plaza, Columbus, OH 43215-2373; and to the Commission's Office of General Counsel and the Division of Economics and Finance.