

BEFORE THE TENNESSEE REGULATORY AUTHORITY

NASHVILLE, TENNESSEE

December 23, 2008

IN RE:)	
)	
APPLICATION OF APPALACHIAN POWER)	DOCKET NO.
COMPANY FOR APPROVAL OF CERTAIN 2009)	08-00194
FINANCING PROGRAMS)	

ORDER APPROVING FINANCING TRANSACTIONS

This matter came before Chairman Tre Hargett, Director Eddie Roberson and Director Mary W. Freeman of the Tennessee Regulatory Authority (the “Authority” or “TRA”), the voting panel assigned to this docket, at a regularly scheduled Authority Conference held on December 15, 2008 for consideration of the *Application* filed on October 13, 2008 and subsequently amended and restated on November 13, 2008 (“*Amended Application*”) by Appalachian Power Company (“Appalachian” or “Company”) seeking approval of certain 2009 financing programs.

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. 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

The Applicant proposes to issue and sell, from time to time through December 31, 2009, secured or unsecured promissory notes ("Notes") in the aggregate principal amount up to \$500,000,000. The Notes may be issued in the form of Senior Notes, Senior or Subordinated Debentures, First Mortgage Bonds, Trust Preferred Securities, or other unsecured promissory notes. The Notes will mature in not less than nine months and not more than 60 years. The interest rate of the Notes may be fixed or variable and will be sold (i) by competitive bidding; (ii) through negotiation with underwriters or agents; or (iii) by direct placement with a commercial bank or other institutional investor. Any fixed rate Note will be sold by Appalachian at a yield to maturity which shall be determined by financial market conditions at the time of pricing. The initial interest rate on any variable rate Note will be determined by financial market conditions at the time of pricing. Appalachian will agree to specific redemption provisions, if any, including redemption premiums, at the time of pricing. If it is deemed advisable, the Notes 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.

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 to protect against future interest rate movements in connection with the issuance of Notes.

Appalachian requests to continue its Interest Rate Management Agreements as approved in Docket No. 06-00190 through December 31, 2009. The *Amended Application* states that such authority would allow Appalachian sufficient alternatives and flexibility when striving to reduce

its effective interest costs and manage interest cost on financing transactions. The Interest Rate Management Agreements will be products commonly used in today's capital markets with the purpose of managing and minimizing interest costs. The agreements will be for a fixed period and a stated principal amount, and shall be for underlying fixed or variable obligations of Appalachian. The aggregate notional amount of all Interest Rate Management Agreements shall not exceed 25% of the Applicant's existing debt obligations, including pollution control revenue bonds.

Finally, Appalachian requests approval to assume obligations in aggregate amount not to exceed \$50,000,000 in connection with Solid Waste Disposal Bonds issued by the West Virginia Economic Development Authority ("WVEDA"). The WVEDA Bonds will allow for tax-exempt financing of pollution control facilities at Appalachian's Amos generating stations in West Virginia. Appalachian also requests approval to enter into interest rate hedging agreements with respect to the Solid Waste Disposal 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 December 15, 2008, 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 the Company flexibility to manage interest costs on financing; and

4. The Company shall be bound by the same filing requirements imposed by the Virginia State Corporation Commission regarding the transactions.

IT IS THEREFORE ORDERED THAT:

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

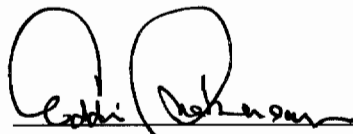
2. Appalachian Power Company shall be bound by the same conditions as set forth in the Order of the Virginia State Corporation Commission approving the Virginia Application.

3. The authorization and approval given hereby shall not be used by any party, including but not limited to, any lending party, for the purpose of inferring an analysis or assessment of the risks involved.

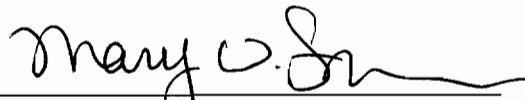
4. This decision is not intended to create any liability on the part of the Tennessee Regulatory Authority, the State of Tennessee or any political subdivision thereof.



Tre Hargett, Chairman



Eddie Roberson, Director



Mary W. Freeman, Director