Hunter Smith & Davis LLP

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Attorneys At Law
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S. Morris Hadden
William C. Bovender
William C. Argabrite
Jimmie Carpenter Miller
Mark S. Dessauer
Gregory K. Haden
Michael L. Forrester
Stephen M. Darden
Edward J. Webb, Jr.
James N.L. Humphreys
Suzanne Sweet Cook
Michael S. Lattier
Scott T. Powers
Leslie Tentler Ridings
Laura A. Steel
Christopher D. Owens
Chad W. Whitfield

Teresa Mahan Lesnak
Matthew H. Wimberley
R. Lee McVey II
Meredith Bates Humbert
Nathan M. Bays
Rachel E. Ralston

Counsel
Thomas R. Wilson
Michael A. Eastridge

Kingsport Office
1212 North Eastman Road
P.O. Box 3740
Kingsport, TN 37664-0740
Phone (423) 378-8800
Fax (423) 378-8801

Johnson City Office
100 Med Tech Parkway
Suite 110
Johnson City, TN 37604
Phone (423) 283-6300
Fax (423) 283-6301

PLEASE RESPOND TO:
KINGSPORT OFFICE

WRITER'S DIRECT DIAL NUMBER:
(423) 378-8858
bovender@hsdlaw.com

October 28, 2009
VIA EMAIL & FEDERAL EXPRESS

AMEP/Z.85554

filed electronically in docket office on 10/28/09

Sara Kyle, Chairman
ATTN: Sharla Dillion, Dockets & Records Manager
460 James Robertson Parkway
Nasvhille, TN 37243-0505

Re: Application of Appalachian Power Company
Docket No.: 09-00158

Dear Chairman Kyle:

We submit herewith four (4) copies of the Order issued by the Virginia State Corporation Commission on October 26, 2009, approving the application of Appalachian Power Company to issue long term debt/financing in 2010.

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

Thank you for your consideration.

Very sincerely yours,

HUNTER, SMITH & DAVIS, LLP

William C. Bovender
Counsel for Appalachian Power Company

WCB/slb
Enclosures
cc: William E. Johnson, Esq. (via email)
James R. Bacha, Esq. (via email)

COMMONWEALTH OF VIRGINIA

STATE CORPORATION COMMISSION

AT RICHMOND, OCTOBER 26, 2009

APPLICATION OF

APPALACHIAN POWER COMPANY   CASE NO. PUE-2009-00110

For authority to incur
long-term debt

ORDER GRANTING AUTHORITY

On October 1, 2009, 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"). 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 million from time to time through December 31, 2010. 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 sixty (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 primarily to reimburse APCO's treasury for construction program expenditures. Some proceeds however may be used to redeem, directly or indirectly, long-term debt; to refund, directly or indirectly, preferred stock; to repay short-term debt; 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 $200 million of Solid Waste Disposal Facilities Bonds ("SWDF Bonds") by the West Virginia Economic Development Authority (the "Authority") on behalf of Applicant. Up to $50 million of the SWDF Bonds will be used to refund $50 million of West Virginia Economic Development Authority, Solid Waste Disposal Facilities Revenue Bonds (Appalachian Power Company – Amos Project), Series 2008E ("Series 2008E Bonds"), issued by the Authority on behalf of Appalachian Power Company. Applicant intends to use the remaining authority for the issuance of up to $150 million of SWDF Bonds ("New Bonds") to finance portions of the environmental and pollution control facilities at APCO's Amos Generating Station in Putnam County, West Virginia (the "Project").

Applicant intends to file an application with the Authority to be awarded a carry forward from the state ceiling for private activity bonds of up to $150 million (the "Carry Forward") to finance portions of the Project. Even though the Authority has yet to award the Carry Forward, Applicant seeks the authority requested for New Bonds to preserve the availability of this lower cost financing. Accordingly, Applicant states that the New Bonds will not be issued until and unless the Carry Forward is allocated by the Authority.

Costs associated with the SWDF Bonds are estimated by Applicant to be approximately $3.3 million, which may include, but not be limited to, trustee fees, legal fees, underwriting compensation, and rating agency fees. 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, 2010, 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 ("Hedge Agreements"). All Hedge Agreements will correspond to one or more of the Notes or SWDF Bonds. Consequently, the cumulative notional amount of the Hedge Agreements cannot exceed $500 million for underlying Notes and $200 million for underlying SWDF Bonds.

Finally, APCO requests a continuation of the authority, initially granted in Case No. PUE-2004-00123 and last granted in Case No. PUE-2008-00103, to utilize interest rate management techniques and enter into IMRAs through December 31, 2010.[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 IMRAs outstanding will not exceed 25% of APCO's existing debt obligations.

NOW THE COMMISSION, upon consideration of the application and having been advised by its 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 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 million of Notes, from time to time during the period January 1, 2010, through December 31, 2010, 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 $200 million of SWDF Bonds from the date of this Order through December 31, 2010, for the purposes and under the terms and conditions set forth in the application.

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[2] Pursuant to the Commission's Order Granting Authority dated November 18, 2008, in Case No. PUE-2008-00103, APCO's existing authority to utilize IRMAs is set to expire after December 31, 2009.

(3) Applicant is authorized to enter into Hedge Agreements for the purposes set forth in its application and to the extent that the aggregate notional amount outstanding does not exceed $500 million for underlying Notes and $200 million for underlying SWDF Bonds through December 31, 2010.

(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, 2010, through December 31, 2010.

(5) Applicant shall not enter into any IRMA or Hedge Agreement transactions 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 31, 2011, 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: H. Allen Glover, Jr., Esquire, Woods Rogers PLC, Wachovia Tower, Suite 1400, 10 South Jefferson Street, Roanoke, Virginia 24011; William E. Johnson, Esquire, American Electric Power Service Corporation, 1 Riverside Plaza, Columbus, Ohio 43215-2373; and to the Commission's Office of General Counsel and the Division of Economics and Finance.