

Hunter Smith & Davis LLP

A Registered Limited Liability Partnership
Attorneys At Law
Established 1916
www.hsdllaw.com

WRITER'S DIRECT DIAL NUMBER:
(423) 378-8858

WRITER'S E-MAIL ADDRESS:
bovender@hsdllaw.com

AMEP/Z.87258

Eddie Roberson, Chairman
ATTN: Sharla Dillon, Dockets & Records Manager
460 James Robertson Parkway
Nashville, TN 37243-0505

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
Christopher D. Owens
Chad W. Whitfield

Teresa Mahan Lesnak
Joseph B. Harvey
Meredith Bates Humbert
Rachel E. Balston
Caroline Ross Williams

Counsel

Terry G. Kilgore
Michael A. Eastridge
Jason A. Creech
Thomas R. Wilson

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

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

Gate City, Virginia
197 West Jackson Street
P.O. Box 669
Gate City, VA 24251
Phone (276) 386-7701
Fax (276) 386-2377

September 8, 2010

VIA EMAIL & FEDEX

PLEASE RESPOND TO:
KINGSPORT OFFICE

Filed electronically
in TRA Docket Room
09/19/2011

Re: Application of Appalachian Power Company
Docket No.: 11-00163

Dear Chairman Roberson:

We submit herewith the original and 4 copies of the Application of Appalachian Power Company seeking the approval of the Tennessee Regulatory Authority for certain 2012 financing programs.

Authorization for these credit facilities is requested pursuant to T.C.A. § 65-4-109 and related regulations.

Appalachian Power Company respectfully requests that, if at all possible, this Petition be considered by the Directors in calendar year 2011.

Should there be any questions, please direct same to the writer.

Very sincerely yours,

HUNTER, SMITH & DAVIS, LLP



William C. Bovender

WCB/sel
Enclosures

Before the

Nashville, Tennessee

In Re: Application of Appalachian :
Power Company in Connection : Docket No.: 11-_____
With its Proposed 2012 Financing :
Program :

TO THE HONORABLE TENNESSEE REGULATORY AUTHORITY:

1. Your petitioner, Appalachian Power Company ("Appalachian"), respectfully shows that:

(a) It is a corporation duly organized and existing under the laws of the Commonwealth of Virginia, having its principal office in said Commonwealth in the City of Roanoke, and is properly qualified to transact business in the State of Tennessee.

(b) A true copy of its Restated Articles of Incorporation was filed with your Honorable Authority in Docket No. U-6533.

(c) Appalachian maintains its principal office in the State of Tennessee in the City of Kingsport, Sullivan County.

2. With the consent and approval of the Virginia State Corporation Commission and the further consent and approval of this Tennessee Regulatory Authority (herein "Authority"), Appalachian proposes to issue and sell, from time to time through December 31, 2012, secured or unsecured promissory notes ("Notes") in the aggregate principal amount equal to, on the date or dates of issuance, up to \$350 million. The Notes may be issued in the form of either 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 the 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.

In connection with the sale of unsecured Notes, Appalachian may agree to restrictive covenants which would prohibit it from, among other things: (i) creating or permitting to exist any liens on its property, with certain stated exceptions; (ii) creating indebtedness except as specified therein; (iii) failing to maintain a specified financial condition; (iv) entering into certain mergers, consolidations and dispositions of assets; and (v) permitting certain events to occur in connection with pension plans. In addition, Appalachian may permit the holder of the Notes to require Appalachian to prepay them after certain specified events, including an ownership change.

The unsecured Notes (other than Trust Preferred Securities) may be issued under a new Indenture or the Indenture dated as of January 1, 1998 (on file in Case No. PUF980032), as previously supplemented and amended, and as to be further supplemented and amended by one or more Supplemental Indentures or Company Orders. A copy of a

recent Company Order utilized by Appalachian is attached hereto as Exhibit A. It is proposed that a similar form of Company Order or a Supplemental Indenture be used for one or more series of the unsecured Notes other than Trust Preferred Securities (except for provisions such as interest rate, maturity, redemption terms and certain administrative matters).

The First Mortgage Bonds would be issued under and secured by a Mortgage and Deed of Trust to be entered into by Appalachian and a trustee in the event of an issuance of secured notes (the "Mortgage"). It is anticipated that any such Mortgage would create a lien on some or all of the utility property or other tangible assets of Appalachian for the benefit of the holders of the First Mortgage Bonds. Other terms such as interest rate, maturity, redemption terms and other matters would be determined at the time of pricing.

The Trust Preferred Securities would be issued by financing entities, such as a statutory trust, which Appalachian would organize and own exclusively for the purpose of facilitating certain types of financings such as the issuance of tax advantaged preferred securities. These financing entities would issue Trust Preferred Securities to third parties. Appalachian requests authority to (i) issue Notes or other evidences of indebtedness to such financing entities in return for the proceeds of the sale of Trust Preferred Securities to third parties; and (ii) acquire all of the voting interests or equity securities issued by the financing entity to establish Appalachian's ownership of the financing entity (the equity portion of the entity generally being created through a capital contribution or the purchase of equity securities, such as shares of stock or partnership interests, involving an amount usually ranging from 1 to 25 percent of the capitalization

of the financing entity). Appalachian also requests authorization to enter into expense agreements with any financing entities it owns, pursuant to which Appalachian would agree to pay all expenses of such entity. Appalachian further requests authorization to guarantee (i) payment of interest, dividends or distributions on the Trust Preferred Securities issued by any of its subsidiary financing entities if and to the extent such financing entities declare dividends or distributions or pay interest out of funds legally available therefor; (ii) payments to the holders of the Trust Preferred Securities issued by such entities of amounts due upon liquidation of such entities or redemption of the Trust Preferred Securities of such entities; and (iii) certain additional amounts that may be payable in respect of Trust Preferred Securities.

3. Appalachian may enter into, from time to time through December 31, 2012, 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 ("Treasury Hedge Agreement") to protect against future interest rate movements in connection with the issuance of the Notes. Each Treasury Hedge Agreement will correspond to one or more Notes that Appalachian will issue pursuant to this Application; accordingly, the aggregate corresponding principal amounts of all Treasury Hedge Agreements cannot exceed an amount equal to, on the date or dates of entering such agreements, up to \$350 million.

Appalachian proposes, with the consent and approval of this Authority, to extend the authority granted in Docket No. 08-00194 (Order dated December 23, 2008) to utilize interest rate management techniques and enter into Interest Rate Management Agreements through December 31, 2012. Such authority will allow Appalachian sufficient

alternatives and flexibility when striving to reduce its effective interest cost and manage interest cost on financings.

A. Interest Rate Management Agreements

The Interest Rate Management Agreements will be products commonly used in today's capital markets, consisting of "interest rate swaps", "caps", "collars", "floors", "options", or hedging products such as "forwards" or "futures", or similar products, the purpose of which is to manage and minimize interest costs. Appalachian expects to enter into these agreements with counterparties that are highly rated financial institutions. The transactions will be for a fixed period and a stated principal amount, and shall be for underlying fixed or variable obligations of Appalachian, whether existing or anticipated. The aggregate notional amount of all Interest Rate Management Agreements shall not exceed 25% of Appalachian's existing debt obligations, including pollution control revenue bonds.

By way of illustration, if Appalachian has entered into Interest Rate Management Agreements whose aggregate notional amounts equal 25% of Appalachian's existing debt obligations, Appalachian could not enter into a new Interest Rate Management Agreement unless and until an existing Interest Rate Management Agreement expired, was terminated with the assent of the counterparty, or was assigned to a non-affiliated third party (at which point Appalachian could enter into a new Interest Rate Management Agreement in a notional amount no greater than the expired, terminated or assigned Interest Rate Management Agreement). Appalachian will not agree to any covenant more restrictive than those contained in the underlying obligation unless such Interest Rate Management

Agreement either expires by its terms or is unwindable on or prior to the end of the Authorization Period.

B. Pricing Parameters

Appalachian proposes that the pricing parameters for Interest Rate Management Agreements be governed by the parameters contained herein. Fees and commissions (but not payments) in connection with any Interest Rate Management Agreement will be in addition to the above parameters and will not exceed the greater of: (a) 2.50% of the amount of the underlying obligation involved or (b) amounts that are consistent with fees and commissions paid by similar companies of comparable credit quality in connection with similar agreements.

C. Accounting

Appalachian proposes to account for these transactions in accordance with generally accepted accounting principles.

D. Authority Authorization

Since market opportunities for these interest rate management alternatives are transitory, Appalachian must be able to execute interest rate management transactions when the opportunity arises to obtain the most competitive pricing. Thus, Appalachian seeks approval to enter into any or all of the described transactions within the parameters discussed above prior to the time Appalachian reaches agreement with respect to the terms of such transactions.

If Appalachian utilizes Interest Rate Management Agreements, Appalachian's annual long-term interest charges could change. The authorization of the Interest Rate Management Agreements consistent with the parameters herein in no way

relieves Appalachian of its responsibility to obtain the best terms available for the product selected and, therefore, it is appropriate and reasonable for this Authority to authorize Appalachian to agree to such terms and prices consistent with said parameters.

4. Any proceeds realized from the sale of the Notes, together with any other funds which may become available to Appalachian, will be used to redeem directly or indirectly long-term debt, to refund directly or indirectly preferred stock, to repay short-term debt at or prior to maturity, to reimburse Appalachian's treasury for expenditures incurred in connection with its construction program and for other corporate purposes. Appalachian estimates that approximately \$474 million (exclusive of allowance for funds used during construction) will be expended throughout 2012 in connection with its construction program. In 2012 Appalachian has the following debt maturing: \$250,000,000 principal amount of 5.65% Senior Notes, Series O, due August 15, 2012.

Appalachian may purchase senior notes, junior subordinated debentures or trust preferred securities referred to herein or any other series of indebtedness or any series of preferred stock through tender offer, negotiated, open market or other form of purchase or otherwise in addition to redemption, if they can be refunded at a lower effective cost. The tender offers will occur if Appalachian considers that the payment of the necessary premium is prudent in light of the interest expense that could be saved by early redemption of any of these series.

* * *

5. *Refunding Tax Exempt Bonds:* Appalachian also requests authority to assume certain obligations under various agreements in an aggregate principal amount not to exceed an aggregate \$149,500,000 in connection with the proposed issuance of one

or more series of Refunding Bonds (defined below) to be issued by the West Virginia Economic Development Authority (the “West Virginia Authority”) and the Industrial Development Authority of Russell County, Virginia (the “Russell County Authority”, and, together with the West Virginia Authority, the “Authority”) on or prior to December 31, 2012. Appalachian intends to refund the following series of bonds following their mandatory tender or through another manner of redemption:

(i) \$30,000,000 Mason County, West Virginia Pollution Control Revenue Bonds (Appalachian Power Company Project), Series K due December 1, 2024 (the “Series K Bonds”) issued by Mason County, West Virginia. In order to refund the Series K Bonds, it is contemplated that the West Virginia Authority will issue refunding bonds in the amount of \$30,000,000 (the “Series K Refunding Bonds”). The proceeds of the sale of Series K Refunding Bonds will be loaned by the West Virginia Authority to Appalachian to provide funds to purchase or redeem the Series K Bonds.

(ii) \$100,000,000 Mason County, West Virginia Pollution Control Revenue Bonds (Appalachian Power Company Project), Series L due October 1, 2022 (the “Series L Bonds”) issued by Mason County, West Virginia. In order to refund the Series L Bonds, it is contemplated that the West Virginia Authority will issue refunding bonds in the amount of \$100,000,000 (the “Series L Refunding Bonds”). The proceeds of the sale of Series L Refunding Bonds will be loaned by the West Virginia Authority to Appalachian to provide funds to purchase or redeem the Series L Bonds.

(iii) \$19,500,000 Industrial Development Authority of Russell County, Virginia Pollution Control Revenue Bonds (Appalachian Power Company Project), Series H due November 1, 2021 (the “Series H Refunding Bonds”) issues by Industrial

Development Authority of Russell County, Virginia. In order to refund the Series H Bonds, it is contemplated that the Russell County Authority will issue refunding bonds in the amount of \$19,500,000 (the "Series H Refunding Bonds"). The proceeds of the sale of Series H Refunding Bonds will be loaned by the Russell County Authority to Appalachian to provide funds to purchase or redeem the Series H Bonds.

The Series K Refunding Bonds, the Series L Refunding Bonds, and the Series H Refunding Bonds are collectively referred to herein as the "Bonds".

6. In connection with each series of Bonds, Appalachian would assume certain obligations under one or more loan or installment payment agreements with the Authority in an aggregate amount authorized hereby of \$149,500,000 and may enter into one or more guaranty agreements, bond insurance agreements and other similar undertakings guaranteeing repayment of any part of the obligations under one or more series of Bonds for the benefit of the holders of such bonds.

7. Each series of Bonds would be issued pursuant to one or more indentures (each an "Indenture"), between the Authority and a Trustee. The proceeds from the sale of each series of Bonds would be loaned to Appalachian pursuant to one or more loan or installment payment agreements between the Authority and Appalachian (collectively the "Loan Agreement"). The payments to be made by Appalachian under the Loan Agreement for one or more series of Bonds, together with other funds available for that purpose, would need to be sufficient to pay the principal, purchase price or premium, if any, and interest on such Bonds. The Loan Agreement and the payments to be made by Appalachian pursuant to each series of Bonds will be assigned to the applicable Trustee to secure the payment of the principal and interest on the related Bonds.

8. Upon issuance of a series of Bonds, Appalachian may issue one or more guarantees or similar agreements in favor of the Trustee guaranteeing repayment of all or any part of the obligations under such Bonds for the benefit of the holders of such Bonds. Additionally, if it is deemed advisable, any series of Facilities Bonds as described herein 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.

9. Each series of Bonds would be sold in one or more underwritten public offerings, negotiated sales, or private placement transactions utilizing the customary and appropriate documentation. While Appalachian will not be a party to the underwriting arrangements for any series of Bonds, the applicable Loan Agreement will provide that the applicable series of Bonds shall have such terms as shall be specified by Appalachian.

The price, maturity date(s), interest rate(s), and the redemption provisions and other terms and provisions of each series of Bonds (including, in the event all or a portion of any series of Bonds initially bear a variable rate of interest, the method for determining the interest rate) would be determined on the basis of negotiations between Appalachian, the Authority, and the purchasers of such bonds. The Loan Agreement for each series will provide that each loan payment (or installment of the purchase price for the applicable Project) payable by Appalachian will be in such an amount (together with other moneys held by the Trustee under the Indenture for that purpose) as will enable the Authority to pay, when due, (i) the interest on all Bonds and any additional bonds and refunding bonds issued under the Indenture for that series; (ii) the stated maturities of the principal of all Bonds and any additional bonds and refunding bonds issued under the Indenture for that series; and (iii) amounts, including any accrued interest, payable in

connection with any redemption of the Bonds and any additional bonds or refunding bonds issued under the Indenture for that series. The Loan Agreement also will obligate Appalachian to pay the fees and charges of the Trustee, as well as certain administrative expenses of the Authority. Appalachian will not agree, without further Order of this Authority, to the issuance of any series of the Bonds if (i) the stated maturity of any such bonds shall be more than forty (40) years; (ii) the fixed rate of interest to be borne by any such bonds shall exceed 10% or the initial rate of interest to be borne by any such bonds bearing a variable rate of interest shall exceed 10%; (iii) the discount from the initial public offering price of any such bond shall exceed 5% of the principal amount thereof; or (iv) the initial public offering price of any such bond shall be less than 95% of the principal amount thereof. Based upon past experience with similar financings, Appalachian estimates other issuance costs, excluding underwriting fees, will be approximately \$1,000,000.

10. Because of the historical spread between long-term fixed interest rates and short-term rates, all or a portion of the Bonds may be issued initially with an interest rate that fluctuates on a weekly, monthly or other basis, as determined from time to time by Appalachian, including the issuance of Bonds having interest rates determined on a periodic basis through bidding. Appalachian would reserve the option to convert any variable rate Bonds at a later date to other interest rate modes, including a fixed rate of interest. Bonds that bear interest at a variable rate (the "Variable Rate Bonds") also may be issued subject to tender by the holders thereof for redemption or purchase. In order to provide funds to pay the purchase price of such tendered Variable Rate Bonds, Appalachian would enter into one or more Remarketing Agreements with one or more

remarketing agents whereby the remarketing agent would use its best efforts to remarket such tendered Variable Rate Bonds to other purchasers at a price equal to the purchase price of such Variable Rate Bonds, which will be 100% of the par amount of such Variable Rate Bonds. Thus, to the extent Variable Rate Bonds are issued, the documentation will be substantially identical to previous Bonds that were issued with a variable interest rate and it is expected that the fees of the remarketing agent will be approximately 25 basis points.

11. Also, in the event that Variable Rate Bonds are issued, Appalachian may enter into one or more liquidity or credit facilities (the "Bank Facility") with a bank or banks (the "Bank") to be selected by Appalachian. The Bank Facility would be a credit agreement designed to provide Appalachian with immediately available funds with which to make payments with respect to any Variable Rate Bonds that have been tendered for purchase and are not remarketed. Pursuant to the Bank Facility, Appalachian may be required to execute and deliver to the Bank a note (the "Bank Facility Note") evidencing Appalachian's obligation to the Bank under the Bank Facility.

In order to obtain terms and conditions more favorable to Appalachian than those provided in the Bank Facility or to provide for additional liquidity or credit support to enhance the marketability of the Variable Rate Bonds, Appalachian may desire to be able to replace the Bank Facility with (or to initially use) one or more substitute liquidity support and/or credit support facilities (the instrument providing the liquidity support and/or credit support and any subsequent replacement support facility thereof, including any replacement facility which would replace a replacement facility, is hereinafter referred to as a "Facility") with one or more banks, insurance companies (including

municipal bond insurance companies) or other financial institutions to be selected by Appalachian from time to time (each such financial institution hereinafter referred to as a "Facility Provider"). A Facility may be in the nature of a letter of credit, revolving credit agreement, standby credit agreement, bond purchase agreement or other similar arrangement designed to provide liquidity and/or credit support for the Variable Rate Bonds. It is contemplated that, in the event the Variable Rate Bonds are converted to bear interest at a fixed rate to maturity, the Bank Facility (if not already replaced or terminated) or, if applicable, the Facility (unless earlier terminated) may be terminated, in whole or in part, following the date of conversion of such series of Variable Rate Bonds. The estimated cost of the financing shown in Section 9 does not include expenses incurred for entering into any Facility, however the impact on the overall cost of the financing would be no more than 150 basis points.

12. In connection with any Facility, Appalachian may enter into one or more credit or similar agreements ("Credit Agreements") with the Facility Provider or providers of such Facility, which would contain the terms of reimbursement or payment to be made by Appalachian to the Facility Providers for amounts advanced by the Facility Providers under the particular Facility. Depending on the exact nature of a Facility, Appalachian may be required to execute and deliver to the Facility Provider a promissory note (each such note hereinafter referred to as a "Facility Note") evidencing Appalachian's repayment obligations to the Facility Provider under the related Credit Agreement; and the Trustee under the applicable Indenture for the Variable Rate Bonds may be authorized, upon the terms set forth in such Indenture and any Credit Agreement, to draw upon the Facility for the purpose of paying the purchase price of Variable Rate

Bonds tendered or required to be tendered for purchase in accordance with the terms of the Indenture which are not remarketed by the remarketing agent as provided in the remarketing agreement and/or for the purpose of paying accrued interest on the Variable Rate Bonds when due and paying principal, whether at maturity, on redemption, acceleration or otherwise.

13. The terms of each Facility, each Credit Agreement and each Facility Note would be negotiated by Appalachian with the respective Bank or Facility Provider and would be the most favorable terms that can be negotiated by Appalachian. The aggregate outstanding principal amount of the obligations of Appalachian at any time under the Loan Agreements, and the Credit Facilities and related notes set forth in the immediately preceding sentence will not exceed the original aggregate principal amount of the Bonds (which will not exceed an aggregate principal amount of \$149,500,000 as set forth in Section 6) plus accrued but unpaid interest and premium, if any, on such bonds.

14. Appalachian may enter into, from time to time through December 31, 2012, 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 ("Bonds Treasury Hedge Agreement") to protect against future interest rate movements in connection with the issuance of the Bonds. Each Bonds Treasury Hedge Agreement will correspond to one or more Bonds that Appalachian will issue pursuant to this Application; accordingly, the aggregate corresponding principal amounts of all Solid Waste Disposal Facilities Bonds Treasury Hedge Agreements cannot exceed an amount equal to, on the date or dates of entering such agreements, up to \$149,500,000.

* * *

15. Appalachian believes that the consummation of the transactions herein proposed will be in the best interests of Appalachian's consumers and investors and consistent with sound and prudent financial policy.

16. Balance Sheets and Statements of Income and Retained Earnings for the three months ended June 30, 2011 are attached hereto as Exhibit B.

17. The issuance of the Notes and Bonds will be effected in compliance with all applicable indenture, charter and other standards relating to debt and equity securities and capitalization ratios of Appalachian.

WHEREFORE, your Petitioner respectfully prays that your Honorable Authority enter an order (1) consenting to and approving the issuance, sale and delivery by Appalachian of secured or unsecured Notes (including Trust Preferred Securities) or other unsecured promissory notes in the principal amount equal to, on the date or dates of issuance, of up to \$350 million pursuant to their respective Indentures and company orders in substantially the form filed as exhibits hereto or similar documentation as described herein; (2) approving of Appalachian assuming certain obligations under various agreements in an aggregate principal amount not to exceed \$149,500,000 in connection with the proposed issuance of one or more series of Refunding Bonds to be issued as described herein; and (3) granting to your Petitioner such other, further or general relief as, in the judgment of your Honorable Authority, your Petitioner may be entitled to have upon the facts hereinabove set forth.

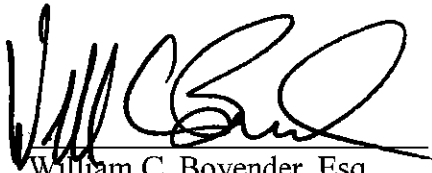
APPALACHIAN POWER COMPANY

By



Renee V. Hawkins
Assistant Treasurer

Date: September 9, 2011



William C. Bovender, Esq.
Hunter, Smith & Davis LLP
P.O. Box 3740
Kingsport, TN 37664

Attorneys for Applicant:



William E. Johnson, Esq.
American Electric Power Service
Corporation
P.O. Box 16631
Columbus, OH 43216-6631

STATE OF OHIO)
) ss:
COUNTY OF FRANKLIN)

Before me, the undersigned, a Notary Public in and for the State and County aforesaid, this 9th day of September, 2011, personally appeared Renee V. Hawkins, to me known to be the person whose name is signed to the foregoing Application, and after being first duly sworn made oath and said that she is the Assistant Treasurer of Appalachian Power Company, that she has read the Application and knows the contents thereof, that the allegations therein are true and correct to the best of her knowledge, information and belief, and that she is duly authorized to make, verify and file the Application for Appalachian Power Company.

Subscribed and sworn to before me this 9th day of September, 2011.

Molly A. Miller
Notary Public



MOLLY A. MILLER
NOTARY PUBLIC
STATE OF OHIO
Comm. Expires
January 19, 2016

April 10, 2006

Company Order and Officers' Certificate
5.55% Senior Notes, Series M, due 2011
6.375% Senior Notes, Series N, due 2036

The Bank of New York, as Trustee
101 Barclay Street – 8W
New York, New York 10286

Ladies and Gentlemen:

Pursuant to Article Two of the Indenture, dated as of January 1, 1998 (as it may be amended or supplemented, the "Indenture"), from Appalachian Power Company (the "Company") to The Bank of New York, as trustee (the "Trustee"), and the Board Resolutions dated December 14, 2005, a copy of which certified by the Secretary or an Assistant Secretary of the Company is being delivered herewith under Section 2.01 of the Indenture, and unless otherwise provided in a subsequent Company Order pursuant to Section 2.04 of the Indenture,

1. the Company's 5.55% Senior Notes, Series M, due 2011 (the "Series M Notes") and 6.375% Senior Notes, Series N, due 2036 (the "Series N Notes") are hereby established. The Series M Notes and the Series N Notes are collectively referred to herein as the "Notes". The Notes shall be in substantially the forms attached hereto as Exhibits 1 and 2.

2. the terms and characteristics of the Notes shall be as follows (the numbered clauses set forth below corresponding to the numbered subsections of Section 2.01 of the Indenture, with terms used and not defined herein having the meanings specified in the Indenture):

(i) the aggregate principal amount of Notes which may be authenticated and delivered under the Indenture initially shall be limited to \$250,000,000 for the Series M Notes and \$250,000,000 for the Series N Notes, except as contemplated in Section 2.01(i) of the Indenture and except that such principal amount may be increased from time to time; all Series M Notes and all Series N Notes need not be issued at the same time and each such series may be reopened at any time, without the consent of any securityholder, for issuance of additional Notes, which Notes will have the same interest rate, maturity and other terms as those initially issued;

(ii) the date on which the principal of the Series M Notes shall be payable shall be April 1, 2011 and the date on which the principal of the Series N Notes shall be payable shall be April 1, 2036;

(iii) interest shall accrue from the date of authentication of the Notes; the Interest Payment Dates on which such interest will be payable shall be April 1 and October 1, and the Regular Record Date for the determination of holders to whom interest is payable on any such Interest Payment Date shall be the March 15 or September 15 preceding the relevant Interest Payment Date; provided that the first Interest Payment Date shall be October 1, 2006 and interest payable on the Stated Maturity Date or any Redemption Date shall be paid to the Person to whom principal shall be paid;

(iv) the interest rate at which the Series M Notes shall bear interest shall be 5.55% per annum and the interest rate at which the Series N Notes shall bear interest shall be 6.375% per annum;

(v) the Notes shall be redeemable at the option of the Company, in whole at any time or in part from time to time, upon not less than thirty but not more than sixty days' previous notice given by mail to the registered owners of the Notes at a redemption price equal to the greater of (i) 100% of the principal amount of the Notes being redeemed and (ii) the sum of the present values of the remaining scheduled payments of principal and interest on the Notes being redeemed (excluding the portion of any such interest accrued to the date of redemption) discounted (for purposes of determining present value) to the redemption date on a semi-annual basis (assuming a 360-day year consisting of twelve 30-day months) at the Treasury Rate (as defined below) plus 15 basis points for the Series M Notes and 30 basis points for the Series N Notes, plus, in each case, accrued interest thereon to the date of redemption.

"Treasury Rate" means, with respect to any redemption date, the rate per annum equal to the semi-annual equivalent yield to maturity of the Comparable Treasury Issue, assuming a price for the Comparable Treasury Issue (expressed as a percentage of its principal amount) equal to the Comparable Treasury Price for such redemption date.

"Comparable Treasury Issue" means the United States Treasury security selected by an Independent Investment Banker as having a maturity comparable to the remaining term of the Notes that would be utilized, at the time of selection and in accordance with customary financial practice, in pricing new issues of corporate debt securities of comparable maturity to the remaining term of the Notes.

"Comparable Treasury Price" means, with respect to any redemption date, (1) the average of the Reference Treasury Dealer Quotations for such redemption date, after excluding the highest and lowest such Reference Treasury Dealer Quotations, or (2) if fewer than four such Reference Treasury Dealer Quotations are obtained, the average of all such quotations.

"Independent Investment Banker" means one of the Reference Treasury

Dealers appointed by the Company and reasonably acceptable to the Trustee.

"Reference Treasury Dealer" means a primary U.S. government securities dealer in New York City selected by the Company and reasonably acceptable to the Trustee.

"Reference Treasury Dealer Quotation" means, with respect to the Reference Treasury Dealer and any redemption date, the average, as determined by the Trustee, of the bid and asked prices for the Comparable Treasury Issue (expressed in each case as a percentage of its principal amount) quoted in writing to the Trustee by such Reference Treasury Dealer at or before 5:00 p.m., New York City time, on the third Business Day preceding such redemption date.

(vi) (a) the Notes shall be issued in the form of Global Notes; (b) the Depository for such Global Notes shall be The Depository Trust Company; and (c) the procedures with respect to transfer and exchange of Global Notes shall be as set forth in the forms of Note attached hereto;

(vii) the title of the Series M Notes shall be "5.55% Senior Notes, Series M, due 2011" and the title of the Series N Notes shall be "6.375% Senior Notes, Series N, due 2036";

(viii) the forms of the Notes shall be as set forth in Paragraph 1, above;

(ix) not applicable;

(x) the Notes shall not be subject to a Periodic Offering;

(xi) not applicable;

(xii) not applicable;

(xiii) not applicable;

(xiv) the Notes shall be issuable in denominations of \$1,000 and any integral multiple thereof;

(xv) not applicable;

(xvi) the Notes shall not be issued as Discount Securities;

(xvii) not applicable;

(xviii) not applicable; and

(xix) So long as any of the Notes are outstanding, the Company will not create or suffer to be created or to exist any additional mortgage, pledge, security interest, or other lien (collectively "Liens") on any of its utility properties or tangible assets now owned or hereafter acquired to secure any indebtedness for borrowed money ("Secured Debt"), without providing that the Notes will be similarly secured. This restriction does not apply to the Company's subsidiaries, nor will it prevent any of them from creating or permitting to exist Liens on their property or assets to secure any Secured Debt. Further, this restriction on Secured Debt does not apply to the Company's existing first mortgage bonds that have previously been issued under its mortgage indenture or any indenture supplemental thereto; provided that this restriction will apply to future issuances thereunder (other than issuances of refunding first mortgage bonds). In addition, this restriction does not prevent the creation or existence of:

(a) Liens on property existing at the time of acquisition or construction of such property (or created within one year after completion of such acquisition or construction), whether by purchase, merger, construction or otherwise, or to secure the payment of all or any part of the purchase price or construction cost thereof, including the extension of any Liens to repairs, renewals, replacements, substitutions, betterments, additions, extensions and improvements then or thereafter made on the property subject thereto;

(b) Financing of the Company's accounts receivable for electric service;

(c) Any extensions, renewals or replacements (or successive extensions, renewals or replacements), in whole or in part, of liens permitted by the foregoing clauses; and

(d) The pledge of any bonds or other securities at any time issued under any of the Secured Debt permitted by the above clauses.

In addition to the permitted issuances above, Secured Debt not otherwise so permitted may be issued in an amount that does not exceed 15% of Net Tangible Assets as defined below.

"Net Tangible Assets" means the total of all assets (including revaluations thereof as a result of commercial appraisals, price level restatement or otherwise) appearing on the Company's balance sheet, net of applicable reserves and deductions, but excluding goodwill, trade names, trademarks, patents, unamortized debt discount and all other like intangible assets (which term shall not be construed to include such revaluations), less the aggregate of the

Company's current liabilities appearing on such balance sheet. For purposes of this definition, the Company's balance sheet does not include assets and liabilities of its subsidiaries.

This restriction also does not apply to or prevent the creation or existence of leases made, or existing on property acquired, in the ordinary course of business.

3. You are hereby requested to authenticate \$250,000,000 aggregate principal amount of 5.55% Senior Notes, Series M, due 2011 and \$250,000,000 aggregate principal amount of 6.375% Senior Notes, Series N, due 2036, executed by the Company and delivered to you concurrently with this Company Order and Officers' Certificate, in the manner provided by the Indenture.

4. You are hereby requested to hold the Notes as custodian for DTC in accordance with the Blanket Issuer Letter of Representations dated June 24, 2004, from the Company to DTC.

5. Concurrently with this Company Order and Officers' Certificate, an Opinion of Counsel under Sections 2.04 and 13.06 of the Indenture is being delivered to you.

6. The undersigned Stephan T. Haynes and Jeffrey D. Cross, the Assistant Treasurer and Assistant Secretary, respectively, of the Company do hereby certify that:

(i) we have read the relevant portions of the Indenture, including without limitation the conditions precedent provided for therein relating to the action proposed to be taken by the Trustee as requested in this Company Order and Officers' Certificate, and the definitions in the Indenture relating thereto;

(ii) we have read the Board Resolutions of the Company and the Opinion of Counsel referred to above;

(iii) we have conferred with other officers of the Company, have examined such records of the Company and have made such other investigation as we deemed relevant for purposes of this certificate;

(iv) in our opinion, we have made such examination or investigation as is necessary to enable us to express an informed opinion as to whether or not such conditions have been complied with; and

(v) on the basis of the foregoing, we are of the opinion that all conditions precedent provided for in the Indenture relating to the action proposed to be taken by the Trustee as requested herein have been complied with.

Kindly acknowledge receipt of this Company Order and Officers' Certificate, including the documents listed herein, and confirm the arrangements set forth herein by signing and returning the copy of this document attached hereto.

Very truly yours,

APPALACHIAN POWER COMPANY

By: _____
Assistant Treasurer

And: _____
Assistant Secretary

Acknowledged by Trustee:

By: _____
Authorized Signatory

EXHIBIT B

APPALACHIAN POWER COMPANY AND SUBSIDIARIES

APPALACHIAN POWER COMPANY AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
For the Three and Six Months Ended June 30, 2011 and 2010
(in thousands)
(Unaudited)

| | Three Months Ended | | Six Months Ended | |
|---|---------------------------|--------------------|-------------------------|------------------|
| | 2011 | 2010 | 2011 | 2010 |
| REVENUES | | | | |
| Electric Generation, Transmission and Distribution | \$ 666,785 | \$ 633,140 | \$ 1,417,797 | \$ 1,479,130 |
| Sales to AEP Affiliates | 82,531 | 67,365 | 161,222 | 146,136 |
| Other Revenues | 2,129 | 2,769 | 4,246 | 4,631 |
| TOTAL REVENUES | 751,445 | 703,274 | 1,583,265 | 1,629,897 |
| EXPENSES | | | | |
| Fuel and Other Consumables Used for Electric Generation | 184,698 | 169,616 | 365,279 | 350,256 |
| Purchased Electricity for Resale | 69,127 | 56,936 | 138,345 | 120,619 |
| Purchased Electricity from AEP Affiliates | 183,661 | 179,607 | 407,850 | 447,109 |
| Other Operation | 74,617 | 170,907 | 187,893 | 260,947 |
| Maintenance | 57,163 | 14,060 | 89,456 | 77,170 |
| Depreciation and Amortization | 67,644 | 73,160 | 136,743 | 150,590 |
| Taxes Other Than Income Taxes | 25,968 | 29,955 | 53,071 | 56,235 |
| TOTAL EXPENSES | 662,878 | 694,241 | 1,378,637 | 1,462,926 |
| OPERATING INCOME | 88,567 | 9,033 | 204,628 | 166,971 |
| Other Income (Expense): | | | | |
| Interest Income | 762 | 662 | 1,082 | 953 |
| Carrying Costs Income | 6,542 | 10,298 | 9,981 | 16,062 |
| Allowance for Equity Funds Used During Construction | 1,212 | 128 | 2,095 | 1,291 |
| Interest Expense | (53,188) | (51,831) | (106,127) | (103,558) |
| INCOME (LOSS) BEFORE INCOME TAX EXPENSE (CREDIT) | 43,895 | (31,710) | 111,659 | 81,719 |
| Income Tax Expense (Credit) | 12,268 | (12,091) | 41,052 | 31,056 |
| NET INCOME (LOSS) | 31,627 | (19,619) | 70,607 | 50,663 |
| Preferred Stock Dividend Requirements Including Capital Stock Expense | 200 | 225 | 400 | 450 |
| EARNINGS (LOSS) ATTRIBUTABLE TO COMMON STOCK | \$ 31,427 | \$ (19,844) | \$ 70,207 | \$ 50,213 |

The common stock of APCo is wholly-owned by AEP.

See Condensed Notes to Condensed Financial Statements of Registrant Subsidiaries beginning on page 162.

APPALACHIAN POWER COMPANY AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS

ASSETS

June 30, 2011 and December 31, 2010

(in thousands)

(Unaudited)

| | 2011 | 2010 |
|--|----------------------|---------------------|
| CURRENT ASSETS | | |
| Cash and Cash Equivalents | \$ 1,632 | \$ 951 |
| Advances to Affiliates | 162,787 | - |
| Accounts Receivable: | | |
| Customers | 179,695 | 166,878 |
| Affiliated Companies | 107,225 | 145,972 |
| Accrued Unbilled Revenues | 52,705 | 108,210 |
| Miscellaneous | 2,961 | 3,090 |
| Allowance for Uncollectible Accounts | (6,839) | (6,667) |
| Total Accounts Receivable | 335,747 | 417,483 |
| Fuel | 142,478 | 230,697 |
| Materials and Supplies | 92,140 | 89,370 |
| Risk Management Assets | 31,814 | 53,242 |
| Accrued Tax Benefits | 127,008 | 104,435 |
| Regulatory Asset for Under-Recovered Fuel Costs | 19,287 | 18,300 |
| Prepayments and Other Current Assets | 29,672 | 35,811 |
| TOTAL CURRENT ASSETS | 942,565 | 950,289 |
| PROPERTY, PLANT AND EQUIPMENT | | |
| Electric: | | |
| Generation | 5,103,051 | 4,736,150 |
| Transmission | 1,889,841 | 1,852,415 |
| Distribution | 2,779,289 | 2,740,752 |
| Other Property, Plant and Equipment | 351,076 | 348,013 |
| Construction Work in Progress | 241,339 | 562,280 |
| Total Property, Plant and Equipment | 10,364,596 | 10,239,610 |
| Accumulated Depreciation and Amortization | 2,927,174 | 2,843,087 |
| TOTAL PROPERTY, PLANT AND EQUIPMENT – NET | 7,437,422 | 7,396,523 |
| OTHER NONCURRENT ASSETS | | |
| Regulatory Assets | 1,506,936 | 1,486,625 |
| Long-term Risk Management Assets | 32,146 | 38,420 |
| Deferred Charges and Other Noncurrent Assets | 119,618 | 125,296 |
| TOTAL OTHER NONCURRENT ASSETS | 1,658,700 | 1,650,341 |
| TOTAL ASSETS | \$ 10,038,687 | \$ 9,997,153 |

See Condensed Notes to Condensed Financial Statements of Registrant Subsidiaries beginning on page 162.

APPALACHIAN POWER COMPANY AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS
LIABILITIES AND SHAREHOLDERS' EQUITY
June 30, 2011 and December 31, 2010
(Unaudited)

| | 2011 | 2010 |
|--|----------------------|---------------------|
| | (in thousands) | |
| CURRENT LIABILITIES | | |
| Advances from Affiliates | \$ - | \$ 128,331 |
| Accounts Payable: | | |
| General | 173,512 | 223,144 |
| Affiliated Companies | 134,238 | 166,884 |
| Long-term Debt Due Within One Year – Nonaffiliated | 229,673 | 479,672 |
| Risk Management Liabilities | 18,502 | 27,993 |
| Customer Deposits | 60,488 | 58,451 |
| Deferred Income Taxes | 36,934 | 44,180 |
| Accrued Taxes | 70,043 | 75,619 |
| Accrued Interest | 59,130 | 57,871 |
| Other Current Liabilities | 96,315 | 93,286 |
| TOTAL CURRENT LIABILITIES | <u>878,835</u> | <u>1,355,431</u> |
| NONCURRENT LIABILITIES | | |
| Long-term Debt -- Nonaffiliated | 3,496,213 | 3,081,469 |
| Long-term Risk Management Liabilities | 10,328 | 10,873 |
| Deferred Income Taxes | 1,756,479 | 1,642,072 |
| Regulatory Liabilities and Deferred Investment Tax Credits | 566,314 | 562,381 |
| Employee Benefits and Pension Obligations | 284,578 | 306,460 |
| Deferred Credits and Other Noncurrent Liabilities | 201,050 | 199,041 |
| TOTAL NONCURRENT LIABILITIES | <u>6,314,962</u> | <u>5,802,296</u> |
| TOTAL LIABILITIES | <u>7,193,797</u> | <u>7,157,727</u> |
| Cumulative Preferred Stock Not Subject to Mandatory Redemption | 17,736 | 17,747 |
| Rate Matters (Note 3) | | |
| Commitments and Contingencies (Note 4) | | |
| COMMON SHAREHOLDER'S EQUITY | | |
| Common Stock – No Par Value: | | |
| Authorized – 30,000,000 Shares | | |
| Outstanding – 13,499,500 Shares | 260,458 | 260,458 |
| Paid-in Capital | 1,475,499 | 1,475,496 |
| Retained Earnings | 1,136,455 | 1,133,748 |
| Accumulated Other Comprehensive Income (Loss) | (45,258) | (48,023) |
| TOTAL COMMON SHAREHOLDER'S EQUITY | <u>2,827,154</u> | <u>2,821,679</u> |
| TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY | <u>\$ 10,038,687</u> | <u>\$ 9,997,153</u> |

See Condensed Notes to Condensed Financial Statements of Registrant Subsidiaries beginning on page 162.

Before the

TENNESSEE REGULATORY AUTHORITY

In the Matter of the

APPLICATION

of

APPALACHIAN POWER COMPANY

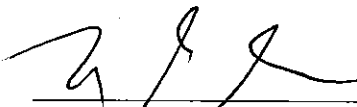
DOCKET NO. 11-_____

VERIFICATION

I, Thomas G Berkemeyer, am authorized to represent Appalachian Power Company and to make this verification on its behalf. The statements in the Application of Appalachian Power Company filed in this docket today are true and of my own knowledge, except as to matters which are stated therein on information and belief, and as to those matters, I believe them to be true. Appalachian Power Company will comply with all applicable laws with respect to its issuance of securities to the public. I declare under penalty of perjury that the foregoing is true and correct.

APPALACHIAN POWER COMPANY

By:



Assistant Secretary

STATE OF OHIO :
COUNTY OF FRANKLIN :ss.

Subscribed and sworn before me this 12th day of September 2011.

By:



Notary Public

My Commission expires: 01-19-2016



MOLLY A. MILLER
NOTARY PUBLIC
STATE OF OHIO
Comm. Expires
January 19, 2016