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AMEP/Z.85554

October 26, 2011

VIA ELECTRONIC FILING

Ms. Sharla Dillon, Docket Room Manager
Tennessee Regulatory Authority
460 James Robertson Parkway
Nashville, Tennessee 37243-0505

filed electronically in docket office on 10/26/11

Re: **TRA Docket No. 11-00163**
Application of Appalachian Power Company Seeking Approval for Certain 2012 Financing Programs

Dear Ms. Dillon:

We herewith submit electronically (and via Federal Express, four copies) the Order issued by the Virginia State Corporation Commission on October 20, 2011, approving Appalachian Power Company's application for authority to issue long-term debt securities.

This submittal is made in response to the request of Mr. Jerry Kettles, Chief, Economic Analysis and Policy Division, and should be filed as part of this Docket No. 11-00163.

Thank you for your assistance.

Very sincerely yours,

HUNTER, SMITH & DAVIS, LLP

William C. Bovender
Counsel for Appalachian Power Company

c: Jerry Kettles, Chief – Economics Analysis and Policy Division (via email w/enc.)
Carlos Black (via email w/enc.)
William E. Johnson, Esq. (via email w/enc.)
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COMMONWEALTH OF VIRGINIA 111030203

STATE CORPORATION COMMISSION

AT RICHMOND, OCTOBER 20, 2011

2011 OCT 20 P 3:40

APPLICATION OF

APPALACHIAN POWER COMPANY CASE NO. PUE-2011-00108

For authority to issue long-term
debt securities

ORDER GRANTING AUTHORITY

On September 23, 2011, 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 securities. 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 $350 million from time to time through December 31, 2012. 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. Underwriting 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.

If used, 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 $149.5 million of tax exempt bonds ("Bonds") by the West Virginia Economic Development Authority and the Industrial Development Authority of Russell County, Virginia (collectively "the Authorities") on behalf of Applicant. In addition to loan agreements with the Authorities, other agreements may include remarketing agreements and credit facility agreements required to provide liquidity support for the issuance of variable rate Bonds.

Aggregate issuance costs associated with the Bonds are estimated by Applicant to be approximately $1.5 million which may include, but not be limited to, underwriting compensation, trustee fees, legal fees, and rating agency fees. According to the Applicant, the rate of interest on any 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 Bonds shall not be less than 95% of the principal amount issued.

In conjunction with the issuance of the Notes and Bonds, Applicant requests authority, through December 31, 2012, 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 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 the underlying amount of one or more of the Notes or Bonds. Consequently, the cumulative notional amount of the Hedge Agreements cannot exceed $350 million for underlying Notes and $149.5 million for underlying Bonds.

Finally, APCo requests a continuation of the authority, initially granted in Case No. PUE-2004-00123 and last granted in Case No. PUE-2010-00110, to utilize interest rate management techniques and enter into IRMAs through December 31, 2012. 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.

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 \$350 million of Notes, from time to time during the period January 1, 2012, through December 31, 2012, 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 \$149.5 million of Bonds from the date of this Order through December 31, 2012, for the purposes and under the terms and conditions set forth in the application.

(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 \$350 million for underlying Notes and \$149.5 million for underlying Bonds.

(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, 2012, through December 31, 2012.

(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 Hedge 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, an analysis demonstrating the cost savings from Notes used to refund existing debt, 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 30, 2013, to include the information required in Ordering Paragraph (8) in a cumulative summary of actions taken during the period authorized.

(10) Applicant shall file a Report with the Commission's Division of Economics and Finance should its exercise of the authority granted herein contribute to a decline in APCo's bond rating below investment grade. Such report shall be filed within thirty (30) days of a decline below an investment grade bond rating from any rating agency and the report shall outline plans and actions to restore an investment grade bond rating.

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

(12) 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.

(13) 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, 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.

A True Copy
Teste: Joel H. Peck
Clerk of the
State Corporation Commission