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December 5, 2012

VIA EMAIL

AMEP/Z.88722

filed electronically in the docket office on 12/05/2012

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

Re: **TRA Docket No. 12-00126**
Application of Appalachian Power Company Seeking Approval
for Certain 2013 Financing Programs

Dear Ms. Dillon:

We enclose for filing in this Docket the Order of the Virginia State Corporation Commission approving Appalachian Power's 2013 Financing Application.

Very sincerely yours,

HUNTER, SMITH & DAVIS, LLP

William C. Bovender
Counsel for Appalachian Power Company

Enclosure

Sharla Dillon, Docket Room Manager

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December 5, 2012

c: James M. Allison, Chairman
David Foster, Chief - Utilities Division
Jerry Kettles, Chief – Economics Analysis and Policy Division
William E. Johnson, Senior Counsel
James R. Bacha, Esq,
Marc Reitter, Manager – Corporate Finance
Renee V. Hawkins

COMMONWEALTH OF VIRGINIA
STATE CORPORATION COMMISSION

AT RICHMOND, DECEMBER 3, 2012

CLERK'S OFFICE
STAMP CONTROL CENTER
2012 DEC -3 A 10 16

APPLICATION OF

APPALACHIAN POWER COMPANY

CASE NO. PUE-2012-00125

For authority to issue
promissory notes

ORDER GRANTING AUTHORITY

On October 23, 2012, Appalachian Power Company ("APCo" or "Applicant") filed an application with the State Corporation Commission ("Commission") under Chapter 3 of Title 56 of the Code of Virginia for authority to issue promissory notes. In conjunction, the 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"). The 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, 2013. 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 months and not more than sixty 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 with

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other issuance costs estimated to amount to approximately \$648,616. The proceeds from the issuance of the Notes may be used to redeem, directly or indirectly, long-term debt; to repay short-term debt; to repay APCo's treasury for expenditures incurred in connections with its construction program and for other proper corporate purposes. A primary use of the proceeds is for the refunding of the \$275 million principal amount of Floating Rate Notes, Series D, due August 16, 2013.

If used, Trust Preferred Securities would be issued by financing entities that APCo would organize and own exclusively for the purpose of facilitating 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.

In conjunction with the issuance of the Notes, the Applicant requests authority, through December 31, 2013, 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. 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. Consequently, the cumulative notional amount of the Hedge Agreements cannot exceed \$350 million for underlying Notes.

Finally, APCo requests a continuation of the authority, initially granted in Case No. PUE-2004-00123 and last granted in Case No. PUE-2011-00108, to utilize interest rate management techniques and enter into IRMAs through December 31, 2013. 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, inclusive of pollution control revenue bonds.

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) The Applicant is hereby authorized under Chapter 3 and, to the extent necessary for issuance of any 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 through December 31, 2013, for the purposes and under the terms and conditions set forth in the application.

(2) The 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 of underlying Notes.

(3) The 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, 2013, through December 31, 2013.

(4) The Applicant shall not enter into any IRMA or Hedge Agreement transactions involving counterparties having credit ratings of less than investment grade.

(5) The 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.

(6) The Applicant shall file with the Clerk of the Commission, in this docket, a preliminary Report of Action within ten (10) days after it enters into any Hedge Agreement or IRMA pursuant to Ordering Paragraphs (2) and (3) 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.

(7) Within 60 days after the end of each calendar quarter in which any security is issued pursuant to this Order, the 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 the 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.

(8) The Applicant's Final Report of Action shall be due on or before March 30, 2014, to include the information required in Ordering Paragraph (7) in a cumulative summary of actions taken during the period authorized.

(9) The Applicant shall submit a Report to the Commission's Division of Utility Accounting 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 submitted within thirty (30)

days of a decline below an investment grade bond rating from any rating agency and the report shall outline APCo's plans and actions to restore an investment grade bond rating.

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

(11) The authority granted herein shall not preclude the Commission from applying the provisions of § 56-78 and § 56-80 of the Code hereafter.

(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: H. Allen Glover, Jr., Esquire, Woods Rogers PLC, Wachovia Tower, Suite 1400, 10 South Jefferson Street, Roanoke, Virginia 24011; and William E. Johnson, Esquire, American Electric Power Service Corporation, 1 Riverside Plaza, Columbus, Ohio 43215-2373; and a copy hereof shall be delivered to the Commission's Office of General Counsel and Division of Utility Accounting and Finance.