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December 9, 2013

VIA EMAIL

AMEP/Z.90211

filed electronically in docket office on 12/09/13

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

Re: **TRA Docket No. 13-00140**  
**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 2014 Financing Application.

Very sincerely yours,

**HUNTER, SMITH & DAVIS, LLP**

William C. Bovender  
Counsel for Appalachian Power Company

Enclosure

Sharla Dillon, Docket Room Manager

Page 2

December 9, 2013

c: James M. Allison, Chairman  
David Foster, Chief - Utilities Division  
Jerry Kettles, Chief – Economics Analysis and Policy Division  
William E. Johnson, Senior Counsel  
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COMMONWEALTH OF VIRGINIA  
STATE CORPORATION COMMISSION  
AT RICHMOND, DECEMBER 5, 2013

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APPLICATION OF

APPALACHIAN POWER COMPANY

CASE NO. PUE-2013-00115

For authority under Chapter 3 of  
Title 56 of the Code of Virginia

ORDER GRANTING AUTHORITY

On October 17, 2013, Appalachian Power Company ("APCo") filed an Application with the State Corporation Commission ("Commission") under Chapter 3 of Title 56 of the Code of Virginia for authority to issue long-term debt securities. With respect to such long-term debt securities, APCo also requests authority to enter into one or more interest rate hedging arrangements to protect against future interest rate movements. Furthermore, APCo requests authority to use interest rate management techniques by entering into various Interest Rate Management Agreements ("IRMAs"). APCo has paid the requisite fee of \$250.

APCo proposes to issue secured or unsecured promissory notes ("Notes") up to the aggregate principal amount of \$600,000,000 from time to time through December 31, 2014. The Notes may be issued in the form of Senior Notes, First Mortgage Bonds, 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 60 years. The interest rates may be fixed or variable. APCo intends to sell the Notes either (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 will not exceed 4.0% of the principal amount issued with other issuance costs estimated to amount to approximately

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\$1,321,840. 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 connection with its construction program; and for other proper corporate purposes. A primary use of the proceeds will be to refund the \$300 million principal amount of inter-company debt that will be assumed with APCo's authorized acquisition of the Ohio Power Company ("OPCo") interest in Amos Unit 3.<sup>1</sup>

APCo further proposes to assume obligations associated with tax-exempt bonds ("Bonds") issued by the West Virginia Economic Development Authority ("WVEDA") on behalf of APCo up to an aggregate principal amount of \$290,375,000. Of that aggregate principal amount, \$204,372,000 is intended for the purpose of refunding three outstanding series of WVEDA bonds with new WVEDA bonds ("Refunding Bonds") on or before December 31, 2014. The remaining \$86,000,000 balance of the aggregate principal amount will be used to issue a new series of WVEDA bonds ("New Series Bonds") to redeem and retire the 3½% WVEDA bonds issued on behalf of OPCo for the Amos facility ("Amos Bonds") after the Amos Bonds become subject to mandatory tender on April 1, 2015. Consequently, APCo requests that the authority associated with the issuance of the New Series Bonds extend through July 1, 2015.

APCo requests additional authority 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 Bonds. Such hedging arrangements may include, but would 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

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<sup>1</sup> *Application of Appalachian Power Company, For approval of transactions to acquire interests in the Amos and Mitchell generation plants and to merge with Wheeling Power Company*, Case No. PUE-2012-00141, Doc. Con. Cent. No. 130730256, Order (July 31, 2013).

underlying amount of one or more of the Notes and Bonds. Therefore, the cumulative notional amount of the Hedge Agreements will not exceed \$600,000,000 for underlying Notes and \$290,375,000 for the underlying Bonds.

Finally, APCo requests a continuation of the authority, which was initially granted in Case No. PUE-2004-00123 and was last granted in Case No. PUE-2012-00125,<sup>2</sup> to use interest rate management techniques and enter into IRMAs through December 31, 2014. 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) APCo is hereby authorized under Chapter 3 to issue and sell up to an aggregate principal of \$600,000,000 of Notes from time to time through December 31, 2014, for the purposes and under the terms and conditions set forth in the Application.

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<sup>2</sup> *Application of Appalachian Power Company, For authority to incur long-term debt*, Case No. PUE-2004-00123, 2004 S.C.C. Ann. Rept. 532, Order Granting Authority (Nov. 30, 2004); *Application of Appalachian Power Company, For authority to issue promissory notes*, Case No. PUE-2012-00125, 2012 S.C.C. Ann. Rept. 526, Order Granting Authority (Dec. 3, 2012).

(2) APCo is hereby authorized under Chapter 3 to assume obligations associated with the issuance and sale of up to an aggregate principal of \$290,375,000 of Bonds by the WVEDA on behalf of APCo from time to time through July 1, 2015, for the purposes and under the terms and conditions set forth in the Application.

(3) APCo 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 \$600,000,000 of underlying Notes and \$290,375,000 of underlying Bonds.

(4) APCo is authorized to enter into IRMAs during the period January 1, 2014, through December 31, 2014, for the purposes set forth in its Application and to the extent that the aggregate notional amount outstanding does not exceed 25% of APCo's total outstanding debt obligations.

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

(6) APCo shall file with 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) APCo 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 (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 sixty (60) days after the end of each calendar quarter in which any security is issued pursuant to this Order, APCo 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 APCo; 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 with the debt issued, and a balance sheet reflecting the actions taken.

(9) APCo's Final Report of Action shall be due on or before September 30, 2015, to include the information required in Ordering Paragraph (8) in a cumulative summary of actions taken during the period authorized.

(10) APCo 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.

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

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

(13) 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.

(14) 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, Wells Fargo 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; and a copy hereof shall be delivered to the Commission's Office of General Counsel and Division of Utility Accounting and Finance.