

BEFORE THE TENNESSEE REGULATORY AUTHORITY

NASHVILLE, TENNESSEE

December 29, 2014

IN RE:

**APPLICATION OF APPALACHIAN POWER
COMPANY FOR AUTHORITY FOR CERTAIN
2015 FINANCING**

**DOCKET NO.
14-00123**

ORDER APPROVING FINANCING TRANSACTIONS

This matter came before Chairman Herbert H. Hilliard, Vice Chairman David F. Jones and Director Kenneth C. Hill of the Tennessee Regulatory Authority (the "Authority" or "TRA"), the voting panel assigned to this docket, at the regularly scheduled Authority Conference held on December 1, 2014, for consideration of the *Application* filed on November 4, 2014 by Appalachian Power Company ("Appalachian") seeking approval, pursuant to Tenn. Code Ann. § 65-4-109, of its proposed 2015 financing programs.

Appalachian provides power to Kingsport Power Company ("Kingsport"). Both Appalachian and Kingsport are wholly-owned subsidiaries of American Electric Power Company, Inc., a publicly-traded holding company. Appalachian and Kingsport are separate legal entities that finance their operations separately. Kingsport purchases all of its power requirements from Appalachian at wholesale rates under a Federal Energy Regulatory Commission approved tariff and receives some services from Appalachian at cost.

THE APPLICATION

On November 4, 2014, Appalachian filed an *Application* requesting approval of its proposed 2015 financing programs. Appalachian proposes to issue and sell, from time to time

through December 31, 2015, secured or unsecured promissory notes (“Notes”) in the aggregate principal amount up to \$750 million. The Notes will mature in not less than nine months and not more than 60 years with interest rates that may be fixed or variable. Appalachian may enter into, from time to time through December 31, 2015, 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 to protect against future interest rate movements in connection with the issuance of Notes.

Appalachian requests to continue its Interest Rate Management Agreements, as approved in TRA Docket No. 08-00194, through December 31, 2015.¹ The *Application* states that such authority would allow Appalachian sufficient alternatives and flexibility when striving to reduce its effective interest costs and manage interest cost on financing transactions. The Interest Rate Management Agreements will be products commonly used in today’s capital markets with the purpose of managing and minimizing interest costs. The agreements will be for a fixed period and for a stated principal amount, and shall be for underlying fixed or variable obligations of Appalachian. The aggregate notional amount of all Interest Rate Management Agreements shall not exceed 25% of the Applicant’s existing debt obligations, including pollution control revenue bonds. Proceeds from the sale of the Notes will be used to redeem directly or indirectly long-term debt, to repay short-term debt at or prior to maturity, to reimburse Appalachian’s treasury for expenditure associated with its construction program and for other corporate purposes.

FINDINGS AND CONCLUSIONS

Tenn. Code Ann. § 65-4-109 provides:

No public utility shall issue any stocks, stock certificates, bonds debentures, or other evidences of indebtedness payable in more than one (1) year from the date thereof, until it shall have first obtained authority from the authority for such proposed issue. It shall be the duty of the authority after hearing to approve any

¹ See *In re: Application Of Appalachian Power Company For Approval Of Certain 2009 Financing Programs*, Docket No. 08-00194, *Order Approving Financing Transactions* (December 23, 2008).

such proposed issue maturing more than one (1) year from the date thereof upon being satisfied that the proposed issue, sale and delivery is to be made in accordance with law and the purpose of such be approved by the authority.

At a regularly scheduled Authority Conference held on December 1, 2014, the panel voted unanimously to approve the *Application* and made the following findings:

1. The proposed financing transactions are subject to Authority approval pursuant to Tenn. Code Ann. § 65-4-109.
2. The proposed financing transactions are being made in accordance with laws enforceable by this agency.
3. The proposed financing transactions are in the public interest because they will provide Appalachian Power Company flexibility to manage interest costs on financing.
4. Approval of this *Application* is contingent upon subsequent approval by the Virginia State Corporation Commission.
5. Appalachian shall be bound by the same filing requirements imposed by the Virginia State Corporation Commission.


IT IS THEREFORE ORDERED THAT:

1. Appalachian Power Company is authorized to enter into the proposed transactions as described in the *Application* and discussed herein, contingent upon subsequent approval by the Virginia State Corporation Commission.
2. Appalachian Power Company shall be bound by the same filing requirements imposed by the Virginia State Corporation Commission.
3. The authorization and approval given hereby shall not be used by any party, including but not limited to, any lending party, for the purpose of inferring an analysis or assessment of the risks involved.

4. This decision is not intended to create any liability on the part of the Tennessee Regulatory Authority, the State of Tennessee or any political subdivision thereof.

Chairman Herbert H. Hilliard, Vice Chairman David F. Jones and Director Kenneth C. Hill concur.

ATTEST:



Earl R. Taylor, Executive Director