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AMEP/Z.92590

February 23, 2016

VIA EMAIL:

Herbert Hilliard, Chairman
c/o Sharla Dillon, Docket Manager
Tennessee Regulatory Authority
502 Deaderick Street, 4th Floor
Nashville, TN 37243

Re: Application of Appalachian Power Company
Docket No.: 16-00014

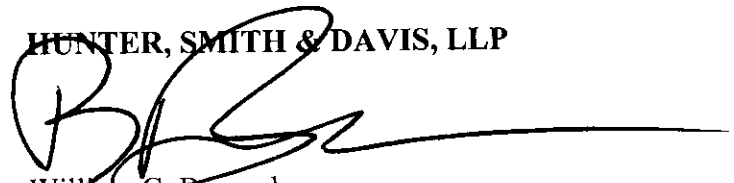
Dear Mr. Hilliard:

We enclose for filing in this Docket the Order of the Virginia State Corporation Commission approving Appalachian Power's 2016-2017 Financing Application.

We would respectfully request an Order now approving the financing program.

Very sincerely yours,

HUNTER, SMITH & DAVIS, LLP



William C. Bovender
Counsel for Appalachian Power Company

Enclosure

February 23, 2016

c: David Foster, Chief - Utilities Division
Jerry Kettles, Chief – Economics Analysis and Policy Division
William E. Johnson, Esq.
James R. Bacha, Esq.
William Castle
Kelly Grams, General Counsel

COMMONWEALTH OF VIRGINIA
STATE CORPORATION COMMISSION
AT RICHMOND, FEBRUARY 17, 2016

160230122

SCC-CLERK'S OFFICE
DOCUMENT CONTROL CENTER

APPLICATION OF

2016 FEB 17 P 4: 03

APPALACHIAN POWER COMPANY

CASE NO. PUE-2016-00006

For authority pursuant to Chapter 3
of Title 56 of the Code of Virginia

ORDER GRANTING AUTHORITY

On January 28, 2016, Appalachian Power Company ("APCo") filed an application ("Application") with the State Corporation Commission ("Commission") under Chapter 3¹ of Title 56 of the Code of Virginia ("Code") for authority to issue long-term debt securities. With respect to such long-term 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 paid the requisite fee of \$250.

APCo proposes to issue and sell secured or unsecured promissory notes ("Notes") up to the aggregate principal amount of \$750 million from time to time through December 31, 2017. The Notes may be issued in the form of Senior Notes, Senior or Subordinated Debentures, First Mortgage Bonds, Bank Credit Revolver or Loans, 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

¹ Va. Code § 56-55 *et seq.*

underwriters or agents; or (iii) by direct placement with a commercial bank or other institutional investors. Underwriting costs for the Notes will not exceed 1.0% of the principal amount issued with other issuance costs estimated to amount to approximately \$1,955,525. The proceeds from the issuance of the Notes may be used to redeem 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.

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. 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 underlying amount of one or more of the Notes. Therefore, the cumulative notional amount of the Hedge Agreements will not exceed \$750 million for the underlying Notes.

Finally, APCo requests a continuation of the authority, which was initially granted in Case No. PUE-2004-00123 and was most recently granted in Case No. PUE-2014-00108,² to use interest rate management techniques and enter into IRMAs through December 31, 2017. 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. APCo will only enter into IRMAs with counterparties that are highly rated financial institutions. The aggregate

² *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 pursuant to Chapter 3 of Title 56 of the Code of Virginia*, Case No. PUE-2014-00108, 2014 S.C.C. Ann. Rept. 490, Order Granting Authority (Dec. 12, 2014).

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 this matter 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 amount of \$750 million of Notes from time to time through December 31, 2017, for the purposes and under the terms and conditions set forth in the Application.

(2) 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 the value of underlying Notes.

(3) APCo is hereby authorized to enter into IRMAs through December 31, 2017, 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.

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

(5) 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.

(6) 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 Order 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 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 and 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 the 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.

(8) APCo's Final Report of Action shall be due on or before March 1, 2018, to include the information required in Order Paragraph (7) in a cumulative summary of actions taken during the period authorized.

(9) 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 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 hereafter the provisions of § 56-78 or § 56-80 of the Code.

(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.

(13) This matter shall remain under continued review, audit, and appropriate directive of the 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; and H. Allen Glover, Jr., Esquire, Woods Rogers PLC, Wachovia Tower, Suite 1400, 10 South Jefferson Street, Roanoke, Virginia 24011. A copy hereof also shall be delivered to the Commission's Office of General Counsel and Division of Utility Accounting and Finance.

A True Copy
Teste:



Clerk of the
State Corporation Commission