

FILE



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November 16, 2015

Docketing Division
Public Utilities Commission of Ohio
180 East Broad Street
Columbus OH 43215

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PUCO

RE: *In the Matter of the Application of AEP Ohio Transmission Company, Inc. for Authority to Issue and Sell Secured or Unsecured Promissory Notes and to Enter into Interest Rate Management Agreements*

Dear Docketing Division:

Enclosed please find Staff's Review and Recommendation in regard to the application of AEP Ohio Transmission Company, Inc. for Authority to Issue and Sell Secured or Unsecured Promissory Notes and to Enter into Interest Rate Management Agreements in Case No. 15-1634-EL-AIS.

Doris McCarter
Division Chief, Forecasting, Markets and Corporate Oversight
Rates and Analysis Department
Public Utilities Commission of Ohio

Enclosure

Cc: Parties of Record

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BEFORE
THE PUBLIC UTILITIES COMMISSION OF OHIO

In the Matter of the Application of AEP Ohio)
Transmission Company, Inc. for Authority to)
Issue and Sell Secured or Unsecured) Case No. 15-1634-EL-AIS
Promissory Notes and to Enter into)
Interest Rate Management Agreements)

Staff Review and Recommendation

APPLICATION DESCRIPTION

On September 17, 2015, AEP Ohio Transmission Company, Inc. (OHTCo) filed its Application and Exhibits (Application), pursuant to R.C. 4905.40 and 4905.42, requesting Public Utility Commission of Ohio (Commission) authorization through December 31, 2016, to: (a) issue and sell secured or unsecured promissory notes (Notes), including AEP Notes (collectively, the New Debt) of up to \$300 million, and (b) enter into interest rate management agreements (the Interest Agreements). As of August 31, 2015, OHTCo had long-term debt outstanding of approximately \$630 million.

OHTCo proposes to use the proceeds from the New Debt to finance the construction, acquisition, maintenance, and improvements to its new and existing electric transmission facilities; to refinance existing debt; to meet working capital needs; and to fund its other general corporate purposes.

REVIEW AND ANALYSIS

The parameters within which the New Debt will be issued are as follows: (a) a maturity of not more than 60 years; (b) interest rate will either be a fixed or a variable and not to exceed by more than 4% of the yield to maturity of US Treasury obligations of comparable maturities at the time of pricing; (c) the initial interest rate will not exceed rates 8% per annum if the New Debt is issued with a variable interest rate; and (d) the commission payable to agents and underwriters will not exceed 3% of the principal amount of the New Debt.

The New Debt may be sold (i) by competitive bidding; (ii) through negotiation with underwriters or agents; or (iii) by direct placement with a commercial bank or other institutional investor.

Pursuant to the Commission Order dated January 21, 2015, in Case No. 14-1883-EL-AIS (the Current Order) OHTCo was authorized through December 31, 2015, among other things, to issue a principal amount of up to \$250 million of long-term securities (Securities). As of June 15, 2015, OHTCo issued an aggregate principal amount of \$50 million of the Securities and anticipates issuing approximately \$96 million of Securities during the remaining period of 2015.

The following table summarizes OHTCo's capitalization structure as of October 31, 2015 and the forecasts for year end 2015 reflecting the use of the Current Order, and year end 2016 reflecting the full use of the Proposed New Debt:

CAPITALIZATION STRUCTURE (Actual and Pro forma)

	Actual	(%)	Forecast	(%)	Forecast	(%)
	8/31/2015		12/31/2015		12/31/2016	
	(\$000's)		(\$000's)		(\$000's)	
Long-Term Debt	\$630,100	48%	\$726,100	50%	\$876,100	49%
Common Equity	\$683,839	52%	\$724,646	50%	\$899,419	51%
Total Capitalization	\$1,313,939	100%	\$1,450,746	100%	\$1,775,519	100%

The forecasted capitalization as of December 31, 2015 represents an anticipated issuance of \$96 million of the Securities and an anticipated equity contribution of \$40 million during the remaining part of 2015. The forecasted capitalization as of December 31, 2016, represents an issuance of \$246 million of New Debt which is inclusive of an amount of \$96 million to be used to refinance the \$96 million of long-term debt. This will result in a net increase of \$150 million in the total long term debt for the year 2016. The capitalization forecast for 2016 includes projected retained earnings as well as anticipated equity contributions of \$102 million.

OHTCo requests authority to enter into Interest Rate Management Agreements (Interest Agreements) to manage and minimize overall interest costs. In general, there would be no proceeds associated with Interest Agreements since no new obligations are created by those instruments.

RECOMMENDATION

Staff has thoroughly reviewed the Application and recommends its approval.