



Public Utilities Commission

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May 1, 2017

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 Ohio Power Company for Authority to issue and sell promissory notes and enter into interest rate management agreements.*

Dear Docketing Division:

Enclosed please find Staff's Review and Recommendation in regard to the application of Ohio Power Company for authority to issue, renew or assume liability on Notes and other evidences of indebtedness as described above in Case No. 17-0365-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 Ohio)	
Power Company for Authority to Issue and)	Case No. 17-0365-EL-AIS
Sell Promissory Notes and to enter into)	
Interest Rate Management Agreements)	

Staff Review and Recommendation

APPLICATION DESCRIPTION:

On February 7, 2017, Ohio Power Company ("Ohio Power") filed an application ("Application") with the Public Utilities Commission of Ohio (the "Commission"), seeking authority to borrow up to \$550 million of long-term debt ("Notes") through May 31, 2018. The Notes would: a) not exceed \$550 million in aggregate principle amount; b) be issued in the form of either senior or subordinated debentures (including junior subordinated debentures) or other promissory notes; c) have a maturity not to exceed 60 years; d) have fixed or variable interest rates that reflect market conditions at the time of issuance for companies with similar financial profiles; and e) reflect other conditions listed in the Application. The Notes will be issued to pay at maturity or refund long-term debt, to repay short-term debt that was already used to pay at maturity or refund long-term debt, for construction, working capital and other corporate purposes.

REVIEW AND ANALYSIS:

Ohio Power is a direct subsidiary of American Electric Power Company, Inc. ("AEP"). Ohio Power plans to issue the Notes in one or more series. The Notes would not exceed the yield to maturity on US Treasury obligations plus 4% at the time of pricing. If a variable rate note is used its initial rate will not exceed 6% per year.

Ohio Power will use \$350 million of the authority to refinance \$350 million of long-term debt that is maturing on May 1, 2018. The remaining \$200 million of authority may be used to support its capital expenditure programs as well as for working capital and other corporate purposes.

The following table summarizes Ohio Power's actual capitalization as of **December 31, 2016**, as well as pro forma capitalizations for 2017 and 2018. The table shows the effects of the requested

authority and with equity contributions held constant to show only the impacts of the pro forma long-term issuances during the authorization period.

Ohio Power
Pro-forma Capitalization

	<u>Actual</u>		<u>Projected</u>		<u>Pro forma</u>	
	<u>12/31/2016</u>		<u>12/31/2017</u>		<u>12/31/2018</u>	
	<u>(000)</u>	<u>(%)</u>	<u>(000)</u>	<u>(%)</u>	<u>(000)</u>	<u>(%)</u>
Long-Term Debt	\$ 1,600,000	<u>43%</u>	\$ 1,700,000	<u>45%</u>	\$ 1,800,000	<u>46%</u>
Common Equity	\$ <u>2,117,544</u>	<u>57%</u>	\$ <u>2,117,544</u>	<u>55%</u>	\$ <u>2,117,544</u>	<u>54%</u>
Total Capitalization	\$ <u>3,717,544</u>	<u>100%</u>	\$ <u>3,817,544</u>	<u>100%</u>	\$ <u>3,917,544</u>	<u>100%</u>

Actual equity is currently expected to increase to \$2.20 billion and \$2.24 billion at the end of 2017 and 2018, respectively.

Long-term, Ohio Power is targeting a capital structure that will support its current Moody's and S&P ratings which are Baa1 (Positive) and A- (Stable), respectively.

RECOMMENDATION:

Upon review of the Application, Staff believes it to be reasonable and recommends its approval with certain conditions imposed. Staff recommends the Commission include a condition as part of its authorization of Ohio Power's Application that in the event the credit rating of AEP falls below investment grade, Ohio Power will file such notice in this docket within 10 days of such change, so that the Commission may consider whether any safeguards need to be imposed on Ohio Power.

Staff further recommends the Commission condition its approval of the parameters contained within Ohio Power's Application on the requirement that Ohio Power's obligation to obtain the lowest cost of financing include the appropriate sizing of the issuances to achieve the lowest cost financing.