



**Public Utilities
Commission**

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December 4, 2017

PUCO

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

RE: *In the Matter of the Application of AEP Ohio Transmission Company, Inc. for Authority to Issue Short-Term Notes and Other Evidences of Indebtedness*

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 short-term debt in Case No. 17-2092-EL-AIS.

Doris McCarter

Division Chief, Capital Recovery and Financial Analysis
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) Case No. 17-2092-EL-AIS
Issue Short-Term Notes And Other Evidences)
of Indebtedness)

Staff Review and Recommendation

APPLICATION DESCRIPTION

On October 4, 2017, AEP Ohio Transmission Company, Inc., ("OHTCo") filed an application with exhibits and, on November 21, 2017, filed an amendment to the application (collectively, "Application"), with the Public Utilities Commission of Ohio ("PUCO" or "Commission") pursuant to Ohio Revised Code ("R.C.") 4905.401 seeking authority to make short-term borrowings of up to \$250 million and to participate in the AEP System Utility Money Pool ("Money Pool") through December 31, 2018. OHTCo anticipates the short-term borrowings will consist of either borrowings from the Money Pool or through intercompany borrowings ("Notes") from American Electric Power Company, Inc. ("AEP"), AEP Transmission Holding Company, LLC, or AEP Transmission Company, LLC. The aggregate total of all borrowings from the Money Pool and Notes will not exceed \$250 million at any one time during the authorization period. The authorization sought by this Application represents a renewal of OHTCo's existing \$250 million of authority that was granted on December 21, 2016, in Case No. 16-1970-EL-AIS.¹

R.C. 4905.401 provides a statutory exemption permitting Ohio electric utilities to borrow up to 5 percent of the par value of all outstanding long-term securities without the Commission's prior approval ("Statutory Exemption"). Any Ohio electric utility wishing to incur short-term obligations in excess of the Statutory Exemption must seek Commission authorization.

REVIEW AND ANALYSIS

As of September 30, 2017, the Statutory Exemption allows OHTCo to borrow up to \$105,457,927. OHTCo anticipates the need for short-term funding in excess of the Statutory Exemption over the course of 2018.

¹ See *In the Matter of the Application of AEP Ohio Transmission Company, Inc. for Authority to Issue Short-term Notes and Other Evidences of Indebtedness*, Case No. 16-1970-EL-AIS, Finding and Order (Dec. 21, 2016).

OHTCo proposes to use the funds from the Money Pool borrowings or from Notes for the interim financing of capital expenditure programs, for repaying prior borrowings incurred for such purposes, and for its working capital needs.

The Money Pool is an inter-company cash management program structured to meet the short-term cash requirements of the participants in the system. Besides OHTCo, the names of other current participants ("Participants") of the Money Pool are included in Amendment No. 7 of the amended application in this case.² The operation of the Money Pool arrangement is designed to match, on a daily basis, the available cash and borrowing requirements of the Participants, thereby minimizing the need to borrow from external sources. AEP and AEP Utility Funding, LLC, may only contribute funds to the Money Pool and are not authorized to borrow funds from the Money Pool. American Electric Power Services Corporation acts as administrative agent for the Money Pool. Participants receiving a loan from the Money Pool must repay it upon demand with interest. The interest rate charged to Participants borrowing from the Money Pool is designed to be lower than other forms of external financing. In addition, Participants who are able to lend surplus cash to the Money Pool generally receive a higher interest rate than typical external savings plans.

STAFF RECOMMENDATION

Staff has reviewed the Application and recommends its approval. However, in order to provide safeguards to insulate OHTCo from the financial risks associated with the other Participants, Staff proposes the following conditions be imposed on its participation in the Money Pool:

- (a) Funds provided by OHTCo to the Money Pool and borrowed therefrom are by only those Participants who are regulated public utilities or subsidiaries of such utilities and such borrowing shall not exceed \$250 million, at any one time through December 31, 2018;
- (b) If any regulatory agency having jurisdiction over one or more of the Participants imposes any condition limiting the amount of short-term debt that may be loaned to any Participant in the Money Pool, OHTCo shall inform the Director of the Rates and Analysis Department of the PUCO within 10 days, so that the Commission may consider whether to impose a similar condition on OHTCo;
- (c) Loans to the Participants made through the Money Pool should be made only to those Participants that have, or whose direct parent company has, investment grade or higher credit ratings from at least one nationally recognized rating agency, or in the absence of such rating, investment grade or higher credit ratings

² See Amendment to Application, Amendment No. 7 to the AEP System Amended and Restated Utility Money Pool Agreement (Nov. 21, 2017).

on their corporate credit rating from at least one nationally recognized rating agency. In the event the credit rating of any Participant, or its parent company in the case of an unrated company, falls below investment grade, OHTCo shall inform the Director of the Rates and Analysis Department of the PUCO within 10 days of such event;

- (d) OHTCo shall file, in this case docket, information relating to its participation in the Money Pool on a quarterly basis.