



**Public Utilities
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November 20, 2018

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 the Staff's Review and Recommendations in regard to the
Application of AEP Ohio Transmission Company, Inc. for Authority to issue Short-term
Notes and Other Evidences of Indebtedness in Case No. 18-1339-EL-AIS.

Doris McCarter
Chief, Capital Recovery and Financial Analysis Division
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. 18-1339-EL-AIS
Issue Short-term Notes and Other Evidences of)	
Indebtedness)	

Staff Review and Recommendation

APPLICATION DESCRIPTION

On August 27, 2018, AEP Ohio Transmission Company, Inc. ("OHTCo") filed an application and exhibits, and subsequently on November 16, 2018, filed a supplemental application (collectively, "Application") with the Public Utilities Commission of Ohio (the "Commission"), seeking authority to issue up to \$250 million of short-term debt from time to time and continue to participate in the AEP Utility Money Pool ("Money Pool") through December 31, 2019. In its Application OHTCo states that it may continue to make Intercompany Borrowings ("Intercompany Borrowings") from American Electric Power Company, Inc. ("AEP"), AEP Transmission Holding Company, LLC, or AEP Transmission Company LLC, provided that the aggregate amount from the Money pool borrowings or the short-term Intercompany Borrowings will not exceed \$250 million at any one time. .

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

OHTCo proposes to use the proceeds from the short-term debt and/or Money Pool for the interim financing of OHTCo's capital expenditure programs, working capital needs and to repay previous borrowings incurred for such purposes.

REVIEW AND ANALYSIS

On December 20, 2017, the Commission authorized OHTCo in Case No. 17-2092-EL-AIS (the "Current Order")¹ to have short-term debt outstanding in aggregate principal amounts of not

¹ See *In the Matter of the Application of AEP Ohio Transmission Company for Authority to Issue Short-Term Notes and Other Evidences of Indebtedness*, Case No. 17-2092-EL-AIS, Finding and Order (December 20, 2017).

more than \$250 million at any one time as well as authorizing its participation in Money Pool through December 31, 2018. During 2018, OHTCo has had outstanding borrowings of short-term debt of up to approximately \$104 million. As of September 30, 2018, OHTCo had no outstanding balance of short-term debt.

As of September 30, 2018, OHTCo could borrow up to approximately \$131 million under the Statutory Exemption without prior Commission authority. OHTCo has demonstrated a need for short-term funding over the course of 2019 to support its capital expenditure program that may exceed the amount permitted by the Statutory Exemption.

OHTCo's actual capital construction expenditures during 2018 (January to August) were approximately \$327 million and OHTCo anticipates spending approximately \$194 million during the remainder part of 2018. OHTCo's projected capital construction expenditures for 2019 are approximately \$556 million.

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 Participants of the Money Pool are listed on page two of the Application (the "Participating Companies"). The operation of the Money Pool arrangement is designed to match on a daily basis the available cash and borrowing requirements of participants, thereby minimizing the need to borrow from external sources. AEP and AEP Utilities, Inc. 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 is based on the composite weighted average daily effective cost incurred by AEP for short-term borrowings from external sources for the Money Pool.

The authority to issue short-term debt and the participation in Money Pool granted in this case will supersede and replace any authority granted under the Current Order.

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 Participating Companies, the 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 by only those Participating Companies shall not exceed \$250 million, at any one time through December 31, 2019, and should only be loaned to those Money Pool participants who are regulated public utilities or subsidiaries of such utilities;
- (b) If any regulatory agency having jurisdiction over one or more of the Participating Companies imposes any condition limiting the amount of short-term debt that

may be loaned to any Participating Company in the Money Pool, OHTCo shall report to the Commission in this docket the full particulars of such conditions within 10 days of the imposition of the condition(s), so that the Commission may consider whether to impose a similar condition on OHTCo;

- (c) Loans to the Participating Companies made through the Money Pool should be made only to those Participating Companies 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 on their corporate credit rating from at least one nationally recognized rating agency. In the event the credit rating of any Participating Company, or its parent company in the case of an unrated company, falls below investment grade, OHTCo shall report to the Commission in this docket the full particulars of such conditions within 10 days of such event; and
- (d) OHTCo shall file in this case docket information relating to its participation in the Money Pool on a quarterly basis.