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May 9, 2019

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

RE: *In the Matter of the Application of Ohio Power Company for Authority to Issue and Sell Promissory Notes and to Enter into Interest Rate Management Agreements*

Dear Docketing Division:

Enclosed please find the Staff's Review and Recommendation in regard to the Application of Ohio Power Company for Authority to Issue and Sell Promissory Notes and to Enter into Interest Rate Management Agreements, Case No. 19-0402-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 Ohio Power Company for Authority to Issue and Sell Promissory Notes and to Enter into Interest Rate Management Agreements	))))	Case No. 19-0402-EL-AIS

Staff Review and Recommendation

APPLICATION DESCRIPTION

On February 11, 2019, Ohio Power Company ("Ohio Power") filed its application and exhibits ("Application"), pursuant to Ohio Revised Code 4905.40 and 4905.42, requesting Public Utility Commission of Ohio ("Commission") authorization through May 31, 2020, to: (a) issue and sell unsecured promissory notes ("Notes"), including unsecured promissory notes (the "AEP Notes") to its parent company American Electric Power Company, Inc. ("AEP") provided that the aggregate amount of the Notes and AEP Notes (collectively, the "New Debt") does not exceed $500 million, and (b) enter into interest rate management agreements (the "Interest Agreements"). As of March 31, 2019, Ohio Power had long-term debt outstanding of approximately $1,699.5 million.

Ohio Power proposes to use the proceeds from the New Debt to pay at maturity or refund its long-term debt, to repay short-term debt used for the purpose of paying at maturity or refund long-term debt, to fund its construction program and for working capital needs and other general corporate purposes.

Ohio Power is also requesting Commission authorization to utilize Interest Rate Agreements to provide alternatives and flexibility in managing interest cost on financings when striving to reduce its overall effective interest costs. The fees and commissions on such Interest Rate Agreements will not exceed 1.0% of the amount of the underlying obligation. In general, there will be no proceeds associated with the Interest Rate Agreements since no new obligations are created with these agreements.

REVIEW AND ANALYSIS

The parameters within which the New Debt will be issued are as follows: (a) maturity of not more than 60 years; (b) interest rate will either be a fixed or a variable interest and not to exceed by more than 400 basis points over the yield to maturity of U.S. Treasury obligations of comparable maturities at the time of pricing; (c) the initial interest rate will not exceed 6 percent per annum if the New debt is issued with a variable interest rate; and (d) the commission payable to agents or underwriters will not exceed 3.5 percent of the principal amount of the New Debt.

The parameters set for the issuance of the New Debt appear to be generous; however, Staff believes that when issued, the actual terms of the securities will be much lower than the stated parameters. Staff's assessment is based on its observation of Ohio Power's most recent debt issuance which occurred in March 2018. Ohio Power issued Senior Unsecured Notes of an aggregate amount of $400 million with 30-year maturity at an interest rate of 4.15 percent.[1] This interest rate included a credit spread of 107 basis points. If the New Debt were issued under current market conditions, Ohio Power estimates that it could likely achieve a spread of approximately 95 basis points for 10-year notes, and approximately 125 basis points for 30-year notes. However, the spread is likely to change over the course of the authorization period based on market developments so the parameters set forth are intended to provide flexibility for a range of possible outcomes and market conditions.

Ohio Power states that all costs, credit spreads, and fees will be determined according to market conditions at the time of issuance for securities with similar characteristics and credit quality compared to Ohio Power.

Ohio Power proposes that the proceeds from issuance of the New Debt will be used to repay short-term borrowings. To the extent any funds are remaining after the initial pay down of short-term borrowings, those remaining funds will be invested in the utility money pool and will be used to fund the ongoing capital expenditures for Ohio Power. Ohio Power's actual capital expenditures during 2018 were approximately $702 million, and the projected capital expenditures for 2019 are approximately $707 million.

The following table provides Ohio Power's current capitalization structure as well as showing the anticipated effect of the issuance of the New Debt.

	As of 03/31/2019 (MM's)	**(%)**	**Pro-forma (MM's)**	**(%)**
Long Term Debt	$ 1,699.5	41%	$ 2,199.5*	48%
Common Equity	$ 2,400.1	59%	$ 2,400.1	52%
Total Capitalization	$ 4,099.6	100.0%	$ 4,599.6	100%

**$2,199.5 million reflects issuance of $500 million of authority being requested in this case.*

[1] See *In the Matter of the Application of Ohio Power Company for Authority to Issue and Sell Promissory Notes and to Enter into Interest Rate Management Agreements*, Case No.17-0365-EL-AIS, Report of Securities Issued (April 11, 2019).

As shown in the chart above, Ohio Power's capitalization on a pro-forma basis after the issuance of the requested $500 million of New Debt results in a more balanced capital structure when compared to its capitalization as of March 31, 2019.

On May 23, 2018 Ohio Power was authorized by the Commission to issue long-term securities through May 31, 2019, for an aggregate amount of $500 million ("Current Order")[2]. Ohio Power has not issued any of the securities authorized under Current Order. Ohio Power's request for the issuance of the New Debt of $500 million is not to be confused as an addition to the securities granted in the Current Order. Ohio Power is put on notice that the Commission will grant the Application to issue up to $500 million of long-tern securities at any one time from the day Commission grants its order through May 31, 2020.

Ohio Power's current debt of $1,699.5 million consists mostly of senior unsecured debt. Ohio Power is viewed as a low risk transmission and distribution utility with a stable rating outlook by the major credit rating agencies.

RECOMMENDATION

Upon review of the Application, Staff believes it appears to be reasonable and recommends its approval with the following conditions:

1. In the event that the credit rating of AEP falls below investment grade, Ohio Power will file such notice in this docket within 10 days of such change and apprise the Commission of Ohio Power's projected course of action to insulate Ohio Power from any negative consequences of such downgrade. Based upon the filing of Ohio Power, the Commission will then determine whether any additional Commission action is warranted.

2. The authorization to consummate the financing transaction(s) to issue the New Debt within the parameters set forth in the Application in no way relieves Ohio Power of its responsibility to negotiate and obtain the best competitive market terms available.

3. In the event that Ohio Power enters into interest rate management agreements, it will report the terms and full particulars to the Commission within 30 days of executing the transaction(s).

4. Ohio Power shall file a summary report, in this case docket, within 30 days of issuing any New Debt under the authority granted in this case. The report shall summarize the principal amount, interest rate and type of security issued; the other terms and full particulars of the New Debt including a description of any collateral required, issuance

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[2] See *In the Matter of the Application of Ohio Power Company for Authority to Issue and Sell Promissory Notes and to Enter into Interest Rate Management Agreements*, Case No.18-0287-EL-AIS Finding and Order (May 23, 2018).

expenses, any discounts or premiums, any credit enhancements, and any other pertinent repayment terms; and the use of proceeds from the New Debt in broad categories.