

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. 19-402-EL-AIS

FINDING AND ORDER

Entered in the Journal on September 11, 2019

I. SUMMARY

{¶ 1} The Commission approves the application filed by Ohio Power Company d/b/a AEP Ohio for authority to issue and sell promissory notes and to enter into interest rate management agreements, subject to Staff's recommended conditions.

II. DISCUSSION

{¶ 2} Ohio Power Company d/b/a AEP Ohio (AEP Ohio) is an electric light company as defined in R.C. 4905.03 and a public utility as defined in R.C. 4905.02, and, as such, is subject to the jurisdiction of this Commission.

{¶ 3} R.C. 4905.40 permits a public utility to issue stocks, bonds, notes, and other evidences of indebtedness, payable at periods of more than 12 months, when authorized by the Commission. Pursuant to R.C. 4905.40(A)(1), the public utility may issue notes or other evidences of indebtedness when it is necessary for, among other things, the construction, completion, extension, renewal, or improvement of its facilities and, under R.C. 4905.40(A)(2), for reorganization or readjustment of its indebtedness and capitalization, among other purposes. The application process for obtaining Commission authorization is outlined in R.C. 4905.41. The application must include the amount, purpose, and terms of the financial arrangement, as well as the total assets and liabilities of the public utility.

{¶ 4} In Case No. 18-287-EL-AIS, the Commission authorized AEP Ohio, through May 31, 2019, to issue and sell promissory notes of up to \$500 million and to enter into

interest rate management agreements. *In re Ohio Power Co.*, Case No. 18-287-EL-AIS, Finding and Order (May 23, 2018).

{¶ 5} On February 11, 2019, in the above-captioned case, AEP Ohio filed an application requesting Commission authorization, through May 31, 2020, to issue and sell unsecured promissory notes (Notes) of up to \$500 million and to enter into interest rate management agreements. In the application, AEP Ohio states that the Notes may be issued in the form of either senior or subordinated debentures or other promissory notes, including one or more unsecured promissory notes issued to its parent company, American Electric Power Company, Inc. (AEP). AEP Ohio proposes to use the proceeds from the Notes to pay at maturity or refund long-term debt; repay short-term indebtedness used to pay at maturity or refund long-term debt; fund its construction program; meet working capital needs; and fund other corporate purposes. AEP Ohio states that, as of September 30, 2018, it had approximately \$1.7 billion in long-term debt and \$242.9 million in short-term debt. With respect to the interest rate management agreements, AEP Ohio explains that the fees and commissions in connection with the agreements will not exceed one percent of the amount of the underlying obligation. According to AEP Ohio, the purpose of the interest rate management agreements is to reduce its effective interest cost and manage interest cost on financings.

{¶ 6} On May 9, 2019, Staff filed its review and recommendation. Staff states that the Notes would have a maturity of not more than 60 years; have either a fixed or variable interest rate that is 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; have an initial interest rate that will not exceed six percent per annum if a variable interest rate applies; and have a commission payable to agents or underwriters that will not exceed 3.5 percent of the principal amount. Staff further states that these parameters, while generous, are intended to provide flexibility for a range of possible outcomes and market conditions. According to Staff, the issuance of the Notes is expected to result in a more balanced capital

structure for AEP Ohio as compared to its capitalization as of March 31, 2019. Following its review, Staff recommends that the Commission approve the application, subject to the following conditions:

- (a) In the event that the credit rating of AEP falls below investment grade, AEP Ohio will file notice, in this docket, within ten days of such change and apprise the Commission of AEP Ohio's projected course of action to insulate itself from any negative consequences of such downgrade. Based upon AEP Ohio's filing, the Commission will then determine whether any additional Commission action is warranted.
- (b) The authorization to consummate the financing transactions to issue the Notes within the parameters set forth in the application in no way relieves AEP Ohio of its responsibility to negotiate and obtain the best competitive market terms available.
- (c) In the event that AEP Ohio enters into interest rate management agreements, it will report the terms and full particulars to the Commission within 30 days of executing the transactions.
- (d) AEP Ohio shall file a summary report, in this case docket, within 30 days of issuing any Notes 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 Notes, including a description of any collateral required, issuance expenses, any discounts or premiums, any credit enhancements, and any other pertinent repayment terms; and the use of proceeds from the Notes in broad categories.

{¶ 7} Based on the information contained in the application and Staff's review and recommendation, the Commission finds that the amount and terms of the Notes, and the probable cost to AEP Ohio, which are to be no less favorable than the terms as described in the application do not appear to be unjust or unreasonable. In addition, based on the information contained in the application, the purposes to which the proceeds from the Notes shall be applied, and the use of the Notes, appear to be reasonably required by AEP Ohio to meet its present and prospective obligations to provide utility service. Therefore, the Commission finds that the application should be approved, subject to Staff's recommended conditions.

III. ORDER

{¶ 8} It is, therefore,

{¶ 9} ORDERED, That AEP Ohio's application be approved, pursuant to the terms and conditions as described in the application, and subject to Staff's recommended conditions. It is, further,

{¶ 10} ORDERED, That AEP Ohio shall apply the proceeds from the Notes for the purposes set forth in this Finding and Order and otherwise pursuant to the provisions of R.C. 4905.40. It is, further,

{¶ 11} ORDERED, That the authorization granted by this Finding and Order shall not be construed as limiting the Commission's determination of the appropriateness of the Notes for future ratemaking treatment. It is, further,

{¶ 12} ORDERED, That nothing in this Finding and Order be construed to imply any guaranty or obligation by the Commission to assure completion of any specific construction project of AEP Ohio. It is, further,

{¶ 13} ORDERED, That nothing in this Finding and Order be construed to imply any guaranty or obligation as to the Notes on the part of the state of Ohio. It is, further,

{¶ 14} ORDERED, That nothing in this Finding and Order be deemed to be binding upon this Commission in any future proceeding or investigation involving the justness or reasonableness of any rate, charge, rule, or regulation. It is, further,

{¶ 15} ORDERED, That a copy of this Finding and Order be served upon all parties of record.

COMMISSIONERS:

Approving:

Sam Randazzo, Chairman

M. Beth Trombold

Lawrence K. Friedeman

Daniel R. Conway

Dennis P. Deters

SJP/mef

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Case No(s). 19-0402-EL-AIS

Summary: Finding & Order that the Commission approves the application filed by Ohio Power Company d/b/a AEP Ohio for authority to issue and sell promissory notes and to enter into interest rate management agreements, subject to Staff's recommended conditions.
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