

FILE

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Public Utilities  
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November 4, 2019

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

PUCO

2019 NOV -4 AM 11:09

RECEIVED-DOCKETING DIV

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 on the application of AEP Ohio Transmission Company, Inc. for authority to Issue Short-Term Notes and Other Evidences of Indebtedness in Case No. 19-1542-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. 19-1542-EL-AIS  
Issue Short-term Notes and Other Evidences of    )  
Indebtedness    )

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**Staff Review and Recommendation**

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**APPLICATION DESCRIPTION**

On August 1, 2019, AEP Ohio Transmission Company, Inc. ("OHTCo") filed an application with attachments, and on August 14, 2019, filed an amendment to the application (collectively, "Application") with the Public Utilities Commission of Ohio ("Commission") seeking authority to issue up to \$250 million of short-term notes ("Notes") and to participate in the AEP System Utility Money Pool ("Money Pool") through December 31, 2020. In its Application, OHTCo states that it may continue to make intercompany borrowings from American Electric Power Company, Inc. ("AEP"), AEP Transmission Holding Company, LLC or AEP Transmission Company, LLC ("Intercompany Borrowings") 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.

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.

Ohio Revised Code 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.

**REVIEW AND ANALYSIS**

As of September 30, 2019, OHTCo could borrow up to approximately \$155 million under the Statutory Exemption without prior Commission's approval. Over the forthcoming authorization period, OHTCo has indicated a need for short-term funding to support its capital expenditure program and for other corporate needs that may exceed the amount allowed under the Statutory Exemption.

OHTCo's actual capital construction expenditures during 2019 (January through July) were approximately \$355 million. OHTCo anticipates spending an additional \$190 million during the remainder of 2019. OHTCo's projected capital construction expenditures for 2020 are approximately \$592 million.

On December 12, 2018, the Commission authorized OHTCo to have short-term debt outstanding in aggregate principal amounts of not more than \$250 million at any one time as well as authorizing its participation in the Money Pool through December 31, 2019 ("Current Authority").<sup>1</sup> From January 1, 2019 through September 30, 2019, OHTCo has had outstanding short-term borrowings as high as \$139 million. As of September 30, 2019, OHTCo did not have any outstanding borrowings from the Money Pool, which is currently OHTCo's primary source of short-term liquidity.

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 the Participating Companies, 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 is based on the composite weighted average daily effective cost incurred by AEP for short-term borrowings from external source for the Money Pool.

OHTCo requests that the authority to issue Notes and participation in the Money Pool granted in this case will supersede and replace any authority granted under the Current Authority.

### **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 other Participating Companies, Staff proposes the following conditions be imposed on OHTCo's participation in the Money Pool:

- (a) Funds provided by OHTCo to the Money Pool and borrowed therefrom by Participating Companies shall not exceed \$250 million, at any one time through December 31, 2020 and should only be loaned to those Participating Companies who are regulated public utilities or subsidiaries of such utilities;

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<sup>1</sup> 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. 18-1339-EL-AIS, Finding and Order (December 12, 2018).

- (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 condition(s) within 10 days of the imposition of those condition(s), so that the Commission may consider whether to impose similar condition(s) 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, an investment grade credit rating from at least one nationally recognized rating agency or, in the absence of such rating, an investment grade 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 file the full details of such condition(s) in this case docket 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.