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PUCO

November 8, 2019

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 and Sell Secured or Unsecured Promissory Notes and Enter into Interest Rate Management Agreements.*

Dear Docketing Division:

Enclosed please find Staff's Review and Recommendation on the application of AEP Ohio Transmission Company, Inc. for authority to Issue and Sell Secured or Unsecured Promissory Notes and Enter into Interest Rate Management in Case No. 19-1541-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

BEFORE
THE PUBLIC UTILITIES COMMISSION OF OHIO

In the Matter of the Application of AEP Ohio	)	
Transmission Company Inc. for Authority to	)	Case No. 19-1541-EL-AIS
Issue and Sell Secured or Unsecured	)	
Promissory Notes and to Enter into Interest	)	
Rate Management Agreements	)	

Staff Review and Recommendation

APPLICATION DESCRIPTION

On August 1, 2019, AEP Ohio Transmission Company, Inc. ("OHTCo") filed an application with attachments (collectively, "Application") with the Public Utilities Commission of Ohio ("Commission") seeking Commission authorization to make long-term borrowings from time to time through December 31, 2020. The long-term borrowings may consist of first mortgage bonds, notes, debentures and preferred securities. The notes may be (a) secured or unsecured promissory notes ("Notes"); (b) unsecured promissory notes to American Electric Power Company, Inc. or to its intermediate parent companies, AEP Transmission Holding Company, LLC or AEP Transmission Company, LLC ("AEP Notes"). The Notes, AEP Notes, debentures and preferred securities (collectively, the "New Debt") will be issued for an aggregate principal amount of up to $350 million. OHTCo also requests authority to enter into interest rate management agreements ("Interest Agreements") to manage and minimize interest costs.

The New Debt may be sold by (i) competitive bidding, (ii) through negotiation with underwriters or agents; or (iii) by direct placement with a commercial bank or other institutional investor.

OHTCo proposes to use the proceeds from the New Debt to finance the construction, acquisition, maintenance, and/or modification or improvement to its new and existing electric transmission facilities; to refinance existing debt; to meet working capital needs (including construction expenditures); and to fund its other general corporate purposes.

REVIEW AND ANALYSIS

The parameters within which the New Debt will be issued are as follows: (a) a maturity of not less than 12 months nor more than 50 years; (b) the interest rate will either be a fixed or variable and not exceed by more then 3% of the yield to maturity of US Treasury obligations of comparable maturities at the time of pricing; (c) the initial interest rate will not exceed 6% per annum if the new Debt is issued with a variable interest rate; and (d) the commission payable to agents and underwriters will not exceed 3.15% of the principal amount of the New Debt.

OHTCo proposes to use the proceeds from the New Debt, among other things, to finance its capital construction program. OHTCo's actual capital construction expenditures during the first seven months of 2019 were approximately $355 million. OHTCo anticipates spending approximately $190 million during the remainder of 2019. OHTCo's projected capital construction expenditures for 2020 are approximately $592 million.

OHTCo was previously authorized by the Commission through December 31, 2019, among other things, to issue secured or unsecured promissory notes in the aggregate principal amount of up to $350 million (the "Current Order").[1] During the authorization period of the Current Order, OHTCo's direct parent company, AEP Transmission Company, LLC ("AEP TransCo"), sold two series of senior notes (collectively, "Parent Offerings"). The first series of Parent Offerings, Series K, was sold on June 12, 2019, in the aggregate principal amount of $350 million of 3.80 percent senior notes due June 15, 2049.[2] The second series of Parent Offerings, Series L, was sold on September 11, 2019, in the aggregate principal amount of $350 million of 3.15 percent senior notes due September 15, 2049.[3] Immediately following both Parent Offerings, OHTCo issued intercompany notes to AEP TransCo, pursuant to the Current Order, in an aggregate principal amount of $127 million and $188 million, respectively, at terms identical to the Parent Offerings. OHTCo does not anticipate further debt issuances under the authority of the Current Order. The authority to issue New Debt in this case will supersede and replace the Current Order.

The following table summarizes OHTCo's capitalization structure as of September 30, 2019, and shows the pro forma impact of the New Debt along with the anticipated growth in equity:

	Actual 09/30/19 ('000')	%		Proforma 12/31/20 ('000')	%
Long-Term Debt	$ 1,492,600	48%		$ 1,842,600	48%
Common Equity	$ 1,645,108	52%		$ 1,981,619	52%
Total Capitalization	$ 3,137,708	100%		$ 3,824,219	100%

While OHTCo does not have its own credit rating, OHTCo's parent AEP TransCo has the following investment grade ratings on its senior unsecured debt: A2 with a Stable outlook by

[1] See *In the Matter of the application of AEP Ohio Transmission Company for Authority to Issue and Sell Secured or Unsecured Promissory Notes and Enter into Interest Rate Management Agreements*, Case 18-1340-EL-AIS, Finding and Order (December 12, 2018) (2018 AIS Case).

[2] 2018 AIS Case, Report of Securities Issued (June 17, 2019).

[3] 2018 AIS Case, Report of Securities Issued (September 17, 2019).

Moody's Investors Service, Inc.; A- with a Stable outlook by Standard and Poor's Financial Services LLC; and A with a Stable outlook by Fitch Ratings, Inc. Investment grade ratings such as these are an indication of a low risk of default in servicing the debt, and such ratings generally provide debt issuers full access to credit markets with relatively more attractive terms and covenants. Since OHTCo is not rated by the major credit rating agencies, it is generally advantageous for OHTCo to issue long-term debt through AEP TransCo with matching terms and conditions to those of the parent's issuance.

OHTCo's request for authority to enter into Interest Agreements to manage and minimize overall interest costs is consistent with the authority granted by the Commission through the Current Order. In general, there would be no proceeds associated with Interest Agreements since no new obligations are created by those instruments.

STAFF RECOMMENDATION

Upon review of the Application and its supporting documents, Staff believes that OHTCo's request to issue the New Debt and entering into Interest Agreements appears reasonable and recommends approval of the Application.

In addition, Staff recommends that the Commission direct OHTCo to file summary reports in this docket for each utilization of the authority granted in this case within 30 days of said utilization. The New Debt summary reports should summarize the principal amounts, interest rates, type of securities issued, issuance costs, premiums or discounts, redemption provisions, and other terms and full particulars of the New Debt. Interest Agreements summary reports should summarize the type of instrument utilized along with full details about the transaction(s) and the anticipated interest cost savings and/or other interest cost management benefit that warranted the transaction(s).