



Public Utilities Commission

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December 7, 2020

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 to Enter into
Interest Rate Management Agreements, Case No. 20-1513-EL-AIS*

Dear Docketing Division:

Enclosed please find Staff's Review and Recommendation in regard to the application of AEP Ohio Transmission Company, Inc. for authority to issue long-term debt and to enter into interest rate management agreements, Case No. 20-1513-GE-AIS.

A handwritten signature in black ink, appearing to read 'DL', written over a horizontal line.

David Lipthrott
Chief, Accounting and Finance Division
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. 20-1513-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 September 17, 2020, AEP Ohio Transmission Company, Inc. (“OHTCo”) filed an application and exhibits (“Application”) with the Public Utilities Commission of Ohio (“Commission”). The Application seeks authorization to make long-term borrowings, from time to time, through December 31, 2021, in an aggregate amount not to exceed \$350 million.

OHTCo proposes to issue and sell secured or unsecured promissory notes (“Long-term Debt Securities”), which may consist of first mortgage bonds, notes, debentures, and preferred securities. In addition, OHTCo may issue one or more unsecured promissory notes to American Electric Power Company, Inc. or to intermediate parent companies, AEP Transmission Holding Company, LLC or AEP Transmission Company, LLC (collectively, “AEP Notes”). The Long-term Debt Securities and AEP Notes will be effectuated in compliance with applicable indenture and other standards related to OHTCo’s capitalization.

The Long-term Debt Securities will be issued with maturities of not less than 12 months and not more than 50 years. The coupon interest rate of any Long-term Debt Security may be fixed or variable. Any fixed rate issue will have a yield to maturity that does not exceed that of a comparable US Treasury obligation by more than 3 percent. For Long-term Debt Securities with a variable coupon interest rate, the initial yield to maturity will not exceed 6 percent. The interest rate and maturity parameters governing the Long-term Debt Securities would apply to the AEP Notes. In addition, the Long-term Debt Securities may include credit enhancements, sinking fund provisions, and restrictive covenants as described in the Application.

OHTCo anticipates placing the Long-term Debt Securities through competitive bidding, negotiation with underwriters, or direct placement with an institutional investor. According to the Application, the commission payable associated with placing the Long-term Debt Securities will not exceed 3.15 percent of the principal amount sold.

OHTCo also seeks approval to enter into Interest Rate Management Agreements to reduce and manage interest costs on financings. The Application identifies products commonly used in capital markets including interest rate swaps, caps, and collars. The Interest Rate Management Agreements specified in the Application have been included in previous applications.¹

The funds obtained from the issuance of the Long-term Debt Securities are to be used to finance the construction, acquisition, maintenance, and/or modification or improvement to its new and existing electric transmission facilities; refinance existing debt; meet working capital needs (including construction expenditures); and fund other general corporate purposes.

REVIEW AND ANALYSIS

On December 18, 2019, the Commission authorized OHTCo to make long-term borrowings of up to \$350 million through December 31, 2020 (“Current Authority”).² OHTCo has issued \$182 million of long-term borrowings under the Current Authority.³ OHTCo’s intent with regards to exercising the remainder of its Current Authority (\$168 million) has been considered by Staff. The \$182 million in long-term borrowings reported to the Commission in April is to be the final long-term debt financing expected under the Current Authority.

The requested authorization is incremental to OHTCo’s existing debt capitalization. There is a \$20 million maturity of the Senior Note Series C, Tranche B, in November 2021, but it is not expected to be refinanced. In addition, OHTCo has indicated that there are no outstanding long-term debts identified for early redemption. The proceeds of authorized new issuances are to be used to repay short-term indebtedness, fund AEP Ohio Transmission Company’s construction program, and other corporate purposes. OHTCo had \$447 million of capital expenditures as of September 30, 2020 with an additional \$170 million estimated for the remainder of this year. Approximately \$515 million of capital spend is expected in 2021.

OHTCo will seek to price and place long-term debt securities in a cost-effective manner, given investor demand. Prior to issuance, feedback from investment banking partners is solicited to assess sentiment for different maturity terms and deal sizes. It is not possible to predict market conditions that will prevail during the period when the requested authority may be exercised. However, current yield increments of comparable maturities are lower than the 300-basis point increment included in the Application. This provision provides flexibility to issue long-term borrowings if market conditions change and yields increase.

¹ See *In the Matter of the Application of AEP Ohio Transmission Company, Inc. for Authority to Issue and Sell Secured or Unsecured Promissory Notes and to Enter into Interest Rate Management Agreements*, Case No. 19-1541-EL-AIS, Application (August 1, 2019) (2019 AIS Case)

² 2019 AIS Case, Finding and Order (December 18, 2019)

³ 2019 AIS Case, Report of Issuance (April 6, 2020)

The following table presents OHTCo's current capitalization as well as its pro-forma composition, reflecting the full utilization of the requested \$350 million in Long-term Debt Securities and AEP Notes requested in its Application. The table gives effect to the \$20 million of Senior Note Series C, Tranche B, maturing in November of 2021, as well as anticipated equity accumulation.

	Actual 9/30/2020 (\$ 000s)	(%)	Pro Forma 12/31/2021 (\$ 000s)	(%)
Long Term Debt	\$ 1,640,700	47%	\$ 1,970,700	47%
Total Equity	\$ 1,855,025	53%	\$ 2,203,437	53%
Total Capitalization	\$ 3,495,725	100%	\$ 4,174,137	100%

As shown, the proposed financing will not increase the proportion of debt in OHTCo's pro forma capitalization. OHTCo intends to maintain a balanced capital structure. Proceeds of any long-term debt offerings, together with funds from operations and parent equity contributions, are used to pay for capital expenditures and repay short-term debt.

OHTCo is not rated by Moody's, Standard & Poor's, or Fitch. However, AEP Transmission Company LLC, OHTCo's parent, is rated by these agencies. The table below provides information concerning AEP Transmission Company LLC's credit ratings.

	<u>Rating</u>	<u>Outlook</u>	<u>As of Date</u>
Moody's	A2	Stable	6/21/2018
Standard & Poor's	A-	Stable	2/2/2017
Fitch	A-	Stable	4/13/2020

It is generally advantageous for AEP Transmission Company LLC to issue debt and accept an intercompany note from OHTCo with terms identical to the debt issued by the parent. Under the Current Authority, this arrangement was utilized to place debt with OHTCo.⁴ AEP Transmission Company LLC's investment grade credit ratings are an indication of a low risk of default in servicing the debt; such ratings generally provide debt issuers full access to credit markets with relatively attractive terms and covenants.

Lastly, OHTCo is seeking authority to enter into Interest Rate Management Agreements with the expressed purposes of striving to reduce and to manage interest costs on financings. Interest Rate Management Agreements do not create additional claims on OHTCo's cash flow nor influence the level of debt outstanding.

⁴ *Id*

RECOMMENDATION

Upon review of the Application, Staff believes it appears to be reasonable and recommends its approval.

In addition, Staff recommends that the Commission direct OHTCo to file summary reports, in this case docket, within 30 days of issuing any Long-term Debt Securities or AEP Notes under the authority granted in this case. The summary report should summarize the principal amounts, interest rates, type of security issued, issuance costs, premiums or discounts, redemption provisions, and other terms and full particulars of the debt issued. Interest Rate Management 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 benefits that warranted the transaction(s).

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Case No(s). 20-1513-EL-AIS

Summary: Staff Review and Recommendation in regard to the application of AEP Ohio Transmission Company, Inc. for authority to issue long-term debt and to enter into interest rate management agreements electronically filed by Zee Molter on behalf of PUCO Staff