



November 30, 2023

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. 23-0883-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. 23-0883-EL-AIS.

Tamara Turkenton
Director
Rates and Analysis Department
Public Utilities Commission of Ohio

Enclosure
Cc: Parties of Record

Commissioners

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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. 23-0883-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 22, 2023, 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, 2024, 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 (collectively, “New Debt”) 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.

The funds obtained from the issuance of the New Debt 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.

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

REVIEW AND ANALYSIS

On December 14, 2022, the Commission authorized OHTCo to make long-term borrowings of up to \$350 million through December 31, 2023 (“Current Authority”).² OHTCo has issued \$270 million of long-term borrowings under the Current Authority.³ OHTCo’s intent with regards to exercising the remainder of its Current Authority (\$80 million) has been considered by Staff. The \$270 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 of New Debt is incremental to OHTCo’s existing debt capitalization. There is a \$38 million maturity of the Senior Note Series C, in November 2024, 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. Proceeds from the New Debt are to be applied to general corporate purposes, funding construction, repaying advances from affiliates, and replenishing working capital. OHTCo had \$416 million of capital expenditures as of September 30, 2023 with an additional \$73 million estimated for the remainder of this year. Approximately \$546 million of capital spend is expected in 2024.

OHTCo will seek to price and place long-term debt securities in a cost-effective manner, given investor demand and pricing considerations for different maturities. Prior to issuance, feedback from investment banking partners is solicited to gauge investor demand and assess the sentiment concerning different maturities and deal sizes. Additionally, the existing maturity of outstanding debt is given consideration prior to new issuance. The coupon interest rate associated with long-term borrowings will be determined by market conditions at the time of issuance. It is not expected that the spread for OHTCo’s Long-term Debt Securities will exceed the 300 basis points referred to in the Application. However, owing to market volatility, latitude of up to 300 basis points over treasuries seems warranted, in OHTCo’s view.

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. 22-0874-EL-AIS, Application (September 14, 2022) (2022 AIS Case)

² 2022 AIS Case, Finding and Order (December 14, 2022)

³ 2022 AIS Case, Report of Securities Issued (March 15, 2023)

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 New Debt requested in its Application.

	Actual 9/30/2023 (\$ 000s)	(%)	Pro Forma 12/31/2024 (\$ 000s)	(%)
Long Term Debt *	\$ 2,173,011	45.27%	\$2,447,311	48.22%
Common Equity	\$2,627,603	54.73%	\$2,627,603	51.78%
Total Capitalization	\$4,800,614	100.0%	\$5,074,914	100.0%

* reflects \$350M long-term debt issuance in 2024 and maturities of \$38M in November 2023 and December 2024

As shown, the proposed financing will raise the proportion of debt in OHTCo's pro forma capitalization. OHTCo intends to maintain a balanced capital structure consistent with the 55%-45% equity-debt allocation authorized by the Federal Energy Regulatory Commission ("FERC"). Proceeds of any long-term debt offerings, together with funds from operations and parent equity contributions, are to be used to pay for capital expenditures and repay short-term debt. This being the case, OHTCo's capitalization will vary moderately from that authorized by FERC.

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 senior unsecured credit ratings. OHTCo does not expect this incremental long-term debt to impair its ability to perform its duties to its customers.

	<u>Rating</u>	<u>Outlook</u>
Moody's	A2	Stable
S&P Global	A-	Negative
Fitch	A-	Stable

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. Following a review of American Electric Power, AEP Transmission Company LLC's ultimate parent, S&P Global revised its outlook from Stable to

⁴ *Id*

Negative but affirmed the debt rating on AEP Transmission Company LLC. The revised outlook is the result of weakened financial measures, specifically funds flow from operations to debt.

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.

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 exercising any authority granted in this case to issue New Debt or Interest Rate management Agreements. New Debt summary reports 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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in

Case No(s). 23-0883-EL-AIS

Summary: Staff Review and Recommendation regarding 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.