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April 20, 2017

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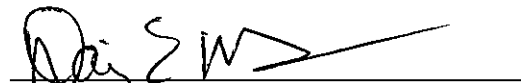
Docketing Division
Public Utilities Commission of Ohio

180 East Broad Street
Columbus OH 43215

RE: *In the Matter of the Application of Ohio Power Company for Authority to issue, short-term notes and other evidences of indebtedness.*

Dear Docketing Division:

Enclosed please find Staff's Review and Recommendation in regard to the application of Ohio Power Company for authority to issue, renew or assume liability on Notes and other evidences of indebtedness as described above in Case No. 17-0157-EL-AIS.


Doris McCarter

Division Chief, Forecasting, Markets and Corporate Oversight
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)	
Ohio Power Company for)	Case No. 17-0157-EL-AIS
Authority to Issue Short-term Notes)	
And other Evidences of Indebtedness)	

Staff Review and Recommendation

APPLICATION DESCRIPTION:

On February 28, 2017, Ohio Power Company ("Ohio Power") filed an application ("Application") with the Public Utilities Commission of Ohio (the "Commission"), seeking authority to issue up to \$400 million of Short-Term Notes ("Notes") and to participate in the AEP Utility Money Pool ("Money Pool") through May 31, 2018. The requested authority represents a renewal of the Company's existing \$400 million of authority that was granted on May 11, 2016 in Case No. 16-0496-EL-AIS, et al¹ ("Prior Order").

Pursuant to Ohio Revised Code ("R.C.") 4905.401, Ohio electric utilities are permitted to borrow up to 5% of the par value of all outstanding long-term securities without specific 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:

Ohio Power's Statutory Exemption as of February 28, 2017, was \$101 million. Ohio Power has demonstrated a need for short-term funding over the course of 2017 and 2018 that exceeds its Statutory Exemption.

The Money Pool is one of several financing vehicles available to Ohio Power as a source of short-term funding. The Money Pool is an inter-company short-term financing arrangement by American Electric Power Company, Inc. ("AEP"), the Company's ultimate parent company, AEP Utilities, Inc., American Electric Power Service Corporation ("AEPSC"), AEP Utility Funding LLC, and certain direct and indirect subsidiaries of AEP ("Participating Companies"). The Money Pool is administered by American Electric Power Service Corporation, a nonutility

¹ See Commission Order dated May 11, 2016, in Case 16-0496-EL-AIS.

subsidiary of AEP. AEP and Utility Funding can lend money to the Money Pool but cannot borrow from it.

AEP's "Operating Companies" that form the Money Pool include the following:

AEP Generating Company, AEP Texas Central Company, AEP Texas North Company, Appalachian Power Company, Indiana Michigan Power Company, Kentucky Power Company, Kingsport Power Company, Ohio Power Company, Public Service Company of Oklahoma, Southwestern Electric Power Company and Wheeling Power Company.

In addition to the Operating Companies, the following companies also participate in the Money Pool:

AEP Appalachian Transmission Company, Inc., AEP Indiana Michigan Transmission Company, Inc., AEP Kentucky Transmission Company, Inc., AEP Ohio Transmission Company, Inc., AEP Oklahoma Transmission Company, Inc., AEP West Virginia Transmission Company, Inc., Blackhawk Coal Company, Cedar Coal Company, Central Appalachian Coal Company, Central Coal Company, Dolet Hills Lignite Company, LLC and Southern Appalachian Coal Company.

Utilities can lend short-term funds to the Money Pool and receive interest income or borrow short-term funds from the Money Pool at rates that are generally more attractive than those obtained through outside financing. Ohio Power is not obligated to borrow from the Money Pool if lower cost funds can be obtained from its own external borrowing. The Application describes the roles of the Operating Companies and other Companies in further detail.

Ohio Power proposes that the proceeds from the Money Pool will be used for interim financing of maturing long-term debt, Ohio Power's capital expenditure programs and other working capital needs, as well as to repay previous borrowings for such purposes. Ohio Power has \$350 million of long-term notes maturing in May 2018. Ohio Power uses the Money Pool as its primary source of liquidity for short-term financing needs. As of February 28, 2017, Ohio Power had approximately \$49 million in borrowings from the Money Pool and no other short-term debt outside of the Money Pool. Ohio Power has investment grade ratings from both Moody's (Baa1) and Standard and Poor's (A-).

STAFF RECOMMENDATION:

Staff has reviewed the Application and recommends its approval in light of Ohio Power's financial condition and anticipated financing needs. However, in order to provide safeguards to insulate Ohio Power from the financial risks associated with other non-Ohio Participating Companies, Staff proposes the Commission impose the following conditions on Ohio Power's participation in the Money Pool:

- (a) Funds provided by Ohio Power to the Money Pool and borrowed therefrom by the Participating Companies shall not exceed \$400 million at any one time through May 31, 2018, and should only be loaned to those Money Pool Participants who are regulated public utilities or such utilities' subsidiaries;
- (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, Ohio Power shall report to the Commission in this case docket the full particulars of such condition(s) within 10 days of the imposition of the condition(s), so that the Commission may consider whether to impose similar condition(s) on Ohio Power;
- (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, Ohio Power shall file the full details of such condition(s) in this case within 10 days of such event; and
- (d) Ohio Power shall also file in this case information relating to its participation in the Money Pool on a quarterly basis.