



**Public Utilities  
Commission**

Asim Z. Haque, Chairman

**Commissioners**

M. Beth Trombold  
Thomas W. Johnson  
Lawrence K. Friedeman  
Daniel R. Conway

FILE

April 20, 2018

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

RECEIVED-DOCKETING DIV  
2018 APR 20 AM 11:10  
PUCO

RE: *In the Matter of the Application of Ohio Power Company for Authority to Issue Short-term Notes and other Evidences of Indebtedness, Case No. 18-0288-EL-AIS*

Dear Docketing Division:

Enclosed please find the Staff's Review and Recommendations in regard to the Application of Ohio Power Company for authority to issue short-term notes and other evidences of indebtedness, Case No. 18-0288-EL-AIS.

Doris McCarter  
Chief, Capital Recovery and Financial Analysis Division  
Public Utilities Commission of Ohio

This is to certify that the images appearing are an accurate and complete reproduction of a case file document delivered in the regular course of business.  
Technician AK Date Processed 4/20/18

Enclosure  
Cc: Parties of Record

180 East Broad Street  
Columbus, Ohio 43215-3793

(614) 466-3016  
www.PUCO.ohio.gov

BEFORE  
THE PUBLIC UTILITIES COMMISSION OF OHIO

In the Matter of the Application of	)	
Ohio Power Company for	)	Case No. 18-0288-EL-AIS
Authority to Issue Short-term Notes	)	
And other Evidences of Indebtedness	)	

---

**Staff Review and Recommendation**

---

**APPLICATION DESCRIPTION**

On February 14, 2018, Ohio Power Company ("Ohio Power") filed an application ("Application") with the Public Utilities Commission of Ohio (the "Commission"), seeking authority to issue up to \$500 million of Short-Term Notes ("Notes") and to participate in the AEP Utility Money Pool ("Money Pool") through May 31, 2019. The requested authority represents a \$100 million increase over the Company's existing \$400 million of authority that was granted on May 17, 2017, in Case No. 17-0157-EL-AIS.<sup>1</sup>

R.C. 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 the Commission's prior approval ("Statutory Exemption"). Any Ohio electric utility wishing to incur short-term obligations in excess of the exempted amount must seek Commission authorization.

**REVIEW AND ANALYSIS**

As of December 31, 2017, Ohio Power could borrow up to \$82 million under the Statutory Exemption without prior Commission authority. Ohio Power has demonstrated a need for short-term funding over the course of 2018 and 2019 that exceeds the amount permitted by the 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

---

<sup>1</sup> See *In the Matter of the Application of Ohio Power Company for Authority to Issue Short-Term Notes and Other Evidences of Indebtedness*, Case No. 17-0157-EL-AIS, Finding and Order (May 17, 2017).

Money Pool is administered by American Electric Power Service Corporation, a nonutility 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 Inc., 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, Dolet Hills Lignite Company, LLC and Southern Appalachian Coal Company.

Utilities can lend surplus 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 Participating 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 uses the Money Pool as its primary source of liquidity for short-term financing needs. Ohio Power plans to invest heavily in projects dedicated to increase reliability and support innovative technologies. The capital expenditures, which are planned to exceed \$1.1 billion in calendar years 2018 and 2019 combined, will be funded in part through both long and short-term debt as well as equity. Short-term debt is subsequently converted to long-term debt when appropriate levels are reached and market conditions are sufficiently favorable. The ability to carry larger short-term debt balances provides flexibility for its conversion to long-term debt and potential pricing benefits associated with certain thresholds of long-term debt issuances.

As of March 31, 2018, Ohio Power had zero outstanding borrowings from the Money Pool and had no other short-term debt outside of the Money Pool. Ohio Power has investment grade ratings from both Moody's (A2) 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 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 \$500 million at any one time through May 31, 2019, 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 file, in this case docket, information relating to its participation in the Money Pool on a quarterly basis.