



**Public Utilities
Commission**

Asim Z. Haque, Chairman

Commissioners

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May 8, 2018

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

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PUCO

RE: *In the Matter of the Application of Ohio Power Company for Authority to Issue and Sell Promissory Notes and enter into Interest Rate Management Agreements, Case No. 18-0287-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 and Sell Promissory Notes and enter into Interest Rate Management Agreements, Case No. 18-0287-EL-AIS.



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

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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 Authority to Issue and)	Case No. 18-0287-EL-AIS
Sell Promissory Notes and to enter into)	
Interest Rate Management Agreements)	

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 borrow up to \$500 million of long-term debt ("Notes") through May 31, 2019. The Notes would: a) not exceed \$500 million in aggregate principle amount; b) be issued in the form of either senior or subordinated debentures (including junior subordinated debentures) or other promissory notes; c) have a maturity not to exceed 60 years; d) have fixed or variable interest rates that reflect market conditions at the time of issuance for companies with similar financial profiles; and e) reflect other conditions listed in the Application.

In addition, Ohio Power may issue one or more promissory notes ("AEP Notes") to its parent American Electric Power, Inc. ("AEP"), provided that the aggregated amount of Notes and AEP Notes issued will not exceed \$500,000,000. The terms of the AEP Notes to Ohio Power, including interest rate and maturity, would mirror the terms incurred externally by AEP.

The Notes or AEP Notes (collectively, "New Debt") will be issued to pay at maturity or refund long-term debt, to repay short-term debt that was already used to pay at maturity or refund long-term debt, for construction, working capital and other corporate purposes.

Ohio Power also seeks authority to enter into interest rate management agreements subject to market conditions. The interest rate management transactions, if used, would be for a fixed period and stated principal amount with the objective of reducing effective interest cost and managing interest cost on financings.

REVIEW AND ANALYSIS

In Case 17-0365-EL-AIS, Ohio Power was authorized to make long-term borrowings up to \$550 million through May 31, 2018.¹ Ohio Power issued \$400 million of that authority primarily to extinguish its \$350 million senior note Series G, which matured on May 1, 2018. The additional proceeds were used to repay short-term debt, for capital expenditures, and for general corporate purposes. Ohio Power does not plan on issuing any of the balance of its current financing authority prior to its expiration on May 31, 2018.

Ohio Power plans to issue the New Debt in one or more series. The New Debt would not exceed the yield to maturity on US Treasury obligations plus 4% at the time of pricing. If a variable rate note is used its initial rate will not exceed 6% per year. The \$500 million of requested authority is anticipated to be used to support its capital expenditure programs as well as for working capital and other corporate purposes.

The following table summarizes Ohio Power's actual capitalization as of March 31, 2018, as well as pro forma capitalizations for periods in 2018 and 2019. The table shows the effects of the requested authority and with equity contributions held constant to show only the impacts of the full utilization of the New Debt authority during the authorization period.

Ohio Power **Pro-forma Capitalization**

	<u>Actual</u>		<u>Pro forma*</u>		<u>Pro forma</u>	
	<u>3/31/2018</u>		<u>12/31/2018</u>		<u>3/31/2019</u>	
	<u>(000)</u>	<u>(%)</u>	<u>(000)</u>	<u>(%)</u>	<u>(000)</u>	<u>(%)</u>
Long-Term Debt**	\$ 2,000,000	<u>47%</u>	\$ 1,650,000	<u>42%</u>	\$ 2,150,000	<u>49%</u>
Common Equity	\$ <u>2,277,504</u>	<u>53%</u>	\$ <u>2,277,504</u>	<u>58%</u>	\$ <u>2,277,504</u>	<u>51%</u>
Total Capitalization	\$ <u>4,277,504</u>	<u>100%</u>	\$ <u>3,927,504</u>	<u>100%</u>	\$ <u>4,427,504</u>	<u>100%</u>

* Reflects the extinguishing of \$350 million of long-term debt on May 1, 2018.

** The data excludes securitization, facility leases and pollution control bonds on Ohio Power's books which have the obligations transferred to AEP Generation Resources through intercompany notes.

¹ See *In the Matter of the Application of Ohio Power Company for Authority to Issue and Sell Promissory Notes and to Enter Into Interest Rate Management Agreements*, Case No. 17-0365-EL-AIS, Finding and Order (May 17, 2017).

Ohio Power plans its financings to maintain a capital structure that will support its current Moody's and Standard and Poor's ratings, which are A2 (Stable) and A- (Stable), respectively.

RECOMMENDATION

Upon review of the Application, Staff believes it appears to be reasonable and recommends its approval with the following conditions:

1. In the event that the credit rating of AEP falls below investment grade, Ohio Power will file such notice in this docket within 10 days of such change and apprise the Commission of Ohio Power's projected course of action to insulate Ohio Power from any negative consequences of such downgrade. Based upon the filing of Ohio Power, the Commission will then determine whether any additional Commission action is warranted.
2. The authorization to consummate the financing transaction(s) to issue the New Debt within the parameters set forth in the Application in no way relieves Ohio Power of its responsibility to negotiate and obtain the best competitive market terms available.
3. In the event that Ohio Power enters into interest rate management agreements, it will report the terms and full particulars to the Commission within 30 days of executing the transaction(s).
4. Ohio Power shall file a summary report, in this case docket, within 30 days of issuing any New Debt under the authority granted in this case. The report shall summarize the principal amount, interest rate and type of security issued; the other terms and full particulars of the New Debt including a description of any collateral required, issuance expenses, any discounts or premiums, any credit enhancements, and any other pertinent repayment terms; and the use of proceeds from the New Debt in broad categories.