Ohio | Public Utilities Commission
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Commissioners

M. Beth Trombold
Thomas W. Johnson
Lawrence K. Friedeman
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May 16, 2018

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

RE: *In the Matter of the Application of American Transmission Systems, Incorporated for Authority to Issue, Sell or Enter into Debt Transactions, Case No. 18-0305-EL-AIS*

Dear Docketing Division:

Enclosed please find the Staff's Review and Recommendations in regard to the Application of American Transmission Systems, Incorporated for authority to issue, sell or enter into debt transactions, Case No. 18-0305-EL-AIS.

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

Enclosure
Cc: Parties of Record

BEFORE
THE PUBLIC UTILITIES COMMISSION OF OHIO

In the Matter of the Application of American Transmission Systems, Incorporated for Authority to Issue, Sell, or Enter into Debt Transactions	))))	Case No. 18-0305-EL-AIS

Staff Review and Recommendation

APPLICATION DESCRIPTION

On February 27, 2018, American Transmission Systems, Incorporated ("ATSI") filed an application with exhibits (the "Application"), pursuant to Ohio Revised Code 4905.40, requesting authority from the Public Utilities Commission of Ohio (the "Commission") to issue new bonds, notes and other evidence of secured or unsecured indebtedness (the "New Debt") in an aggregate principal amount not to exceed $200 million. If approved, the New Debt (i) will have the maturity not to exceed 41 years from the date of their issuances; (ii) will carry an interest rate that will not exceed 2.5 percent above the yield to maturity of the United States Treasury Bonds of comparable maturity at the time of pricing or issuance; and (iii) the fees and other commissions will not exceed 1.65 percent of the aggregate principal amount. The New Debt may be issued in one or more series and may be offered through negotiated private placement. Any series of the New Debt may be issued with the benefit of letters of credit, bond insurance or other forms of credit enhancement.

ATSI proposes to use the proceeds from the New Debt to provide funds for the acquisition of property; for construction, completion, extension, repair, replacement, relocation, or improvement of its facilities; to reimburse its treasury, in part, for monies expended for such purposes; for the refinancing of existing debt; to meet working capital needs; to fund the day to day operations of the company; and for other corporate purposes permitted by law.

REVIEW AND ANALYSIS

On July 5, 2017, the Commission authorized ATSI to issue debt of up to $150 million for a 12-month period.[1] On August 31, 2017, ATSI exercised that authority by issuing 15-year Senior Notes ("Notes") at an interest rate of 3.66 percent for an aggregate principal amount of $150

[1] See *In the Matter of the Application of American Transmission Systems, Incorporated for Authority to Issue, Sell, or Enter Into Debt Transactions*, Case No. 17-891-EL-AIS, Finding and Order (Jul. 5, 2017).

million.[2] The net proceeds from the Notes were used to repay short-term borrowings, to fund capital expenditures, and for working capital needs and other general business purposes. ATSI has no other existing long-term debt authority at this time.

ATSI proposes to issue the New Debt with a maturity of up to 41 years with an interest rate which will not exceed 2.5 percent above the yield to maturity of the United States Treasury Bonds (the "Treasury Bonds") of comparable maturity at the time of pricing or issuance.

The proposed issuance of the New Debt will cause some change in ATSI's capitalization ratios on a pro-forma basis. The following table summarizes the capitalization structure as of March 31, 2018, and as adjusted for the proposed issuance of up to $200 million of the New Debt:

	Actual 03/31/2018 ($millions)	(%)	Proposed Changes ($millions)	2018 Pro forma* ($millions)	(%)
Long Term Debt	$ 1,090	39.7%	$ 200	$ 1,290	43.8%
Common Equity	$ 1,657	60.3%	$ 0	$ 1,657	56.2%
Total Capitalization	$ 2,747	100.0%		$ 2,947	100.0%

**Pro forma reflects the addition of $200 million of long-term debt. Common Equity has been kept constant to show the impacts of the New Debt.*

ATSI does not anticipate needing to use credit enhancements when issuing the New Debt. In the event of unforeseen volatile market conditions, ATSI may need to maintain the ability to use credit enhancements. The cost of a letter of credit would be in the range of 0.75 percent to 0.95 percent.

ATSI intends to use the proceeds from the New Debt to fund capital expenditure; reimburse its treasury, in part, for monies expended for such purposes; for the refinancing of existing debt; to fund working capital needs; and, for other corporate purposes. ATSI estimates its 2018 capital expenditures to be approximately $375 million. During 2017, ATSI's actual capital expenditures were $541 million. ATSI does not have any consideration at present for redeeming or refinancing of any of its long-term obligations.

ATSI is a wholly-owned subsidiary of the FirstEnergy Corp. (FE). ATSI's current unsecured credit ratings by Moody's is Baa1 (stable), and by Standard and Poor's is BBB- (stable) . On March 31, 2018, FirstEnergy Solutions ("FES"), FE's non-regulated subsidiary, filed for

[2] ATSI Case No. 17-891-EL-AIS, Correspondence Letter (Nov. 17, 2017).

bankruptcy. The bankruptcy filing may have some credit rating impact on FE, which may impact the credit ratings of its subsidiaries including ATSI.

STAFF RECOMMENDATION

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

1. In the event that the credit rating of FE falls below investment grade due to the FES bankruptcy, or for any other reason(s), ATSI shall file a notice in this docket within 10 days of such change and apprise the Commission of ATSI's projected course of action to insulate ATSI from any negative financial consequences of such downgrade. Based upon the filing of ATSI, 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 ATSI of its responsibility to negotiate and obtain the best competitive market terms available.

3. ATSI may use the proceeds from the New Debt only for the purposes stated in the Application, with the exception of funding ATSI's day-to-day operations, which should be funded with cash revenues from operations.

4. ATSI 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, discounts or premiums, credit enhancements, and any other pertinent repayment terms; and the use of proceeds from the New Debt in broad categories.