

THE PUBLIC UTILITIES COMMISSION OF OHIO

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. 18-287-EL-AIS

FINDING AND ORDER

Entered in the Journal on May 23, 2018

I. SUMMARY

{¶ 1} The Commission approves the application filed by Ohio Power Company d/b/a AEP Ohio for authority to issue and sell promissory notes and to enter into interest rate management agreements, subject to Staff's recommended conditions.

II. DISCUSSION

{¶ 2} Ohio Power Company d/b/a AEP Ohio (AEP Ohio) is an electric light company as defined in R.C. 4905.03 and a public utility as defined in R.C. 4905.02, and, as such, is subject to the jurisdiction of this Commission.

{¶ 3} R.C. 4905.40 permits a public utility to issue stocks, bonds, notes, and other evidences of indebtedness, payable at periods of more than 12 months, when authorized by the Commission. Pursuant to R.C. 4905.40(A)(1), the public utility may issue notes or other evidences of indebtedness when it is necessary for, among other things, the construction, completion, extension, renewal, or improvement of its facilities and, under R.C. 4905.40(A)(2), for reorganization or readjustment of its indebtedness and capitalization, among other purposes. The application process for obtaining Commission authorization is outlined in R.C. 4905.41. The application must include the amount, purpose, and terms of the financial arrangement, as well as the total assets and liabilities of the public utility.

{¶ 4} In Case No. 17-365-EL-AIS, the Commission authorized AEP Ohio, through May 31, 2018, to issue and sell promissory notes of up to \$550 million and to enter into interest rate management agreements. *In re Ohio Power Co.*, Case No. 17-365-EL-AIS, Finding and Order (May 17, 2017).

{¶ 5} On February 14, 2018, in the above-captioned case, AEP Ohio filed an application requesting Commission authorization, through May 31, 2019, to issue and sell unsecured promissory notes (Notes) of up to \$500 million and to enter into interest rate management agreements. AEP Ohio proposes to use the proceeds from the Notes to pay at maturity or refund long-term debt; repay short-term indebtedness used to pay at maturity or refund long-term debt; fund its construction program; meet working capital needs; and fund other corporate purposes. AEP Ohio states that, as of September 30, 2017, it had approximately \$1.6 billion in long-term debt and \$167.6 million in short-term debt. With respect to the interest rate management agreements, AEP Ohio explains that the fees and commissions in connection with the agreements will not exceed one percent of the amount of the underlying obligation. According to AEP Ohio, the purpose of the interest rate management agreements is to reduce its effective interest cost and manage interest cost on financings.

{¶ 6} On May 8, 2018, Staff filed its review and recommendations. Staff states that the Notes would not exceed \$500 million in aggregate principal amount; be issued in the form of either senior or subordinated debentures, including junior subordinated debentures, or other promissory notes; have a maturity not to exceed 60 years; have fixed or variable interest rates that reflect market conditions at the time of issuance for companies with similar financial profiles; and reflect other conditions listed in AEP Ohio's application. Staff adds that AEP Ohio may issue one or more promissory notes to its parent company, American Electric Power Company, Inc. (AEP). Staff explains that the Notes would not exceed the yield to maturity on U.S. Treasury obligations plus four percent at the time of pricing and that, if a variable rate note is used, its initial rate would

not exceed six percent per year. According to Staff, AEP Ohio expects to use the proceeds to support its capital expenditure programs, as well as for working capital and other corporate purposes. Following its review, Staff recommends that the Commission approve the application, subject to the following conditions:

- (a) In the event that the credit rating of AEP falls below investment grade, AEP Ohio will file notice, in this docket, within ten days of such change and apprise the Commission of AEP Ohio's projected course of action to insulate itself from any negative consequences of such downgrade. Based upon AEP Ohio's filing, the Commission will then determine whether any additional Commission action is warranted.
- (b) The authorization to consummate the financing transactions to issue the Notes within the parameters set forth in the application in no way relieves AEP Ohio of its responsibility to negotiate and obtain the best competitive market terms available.
- (c) In the event that AEP Ohio enters into interest rate management agreements, it will report the terms and full particulars to the Commission within 30 days of executing the transactions.
- (d) AEP Ohio shall file a summary report, in this case docket, within 30 days of issuing any Notes 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 Notes, 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 Notes in broad categories.

{¶ 7} Based on the information contained in the application and Staff's review and recommendations, the Commission finds that the amount and terms of the Notes, and the probable cost to AEP Ohio, which are to be no less favorable than the terms as described in the application do not appear to be unjust or unreasonable. In addition, based on the information contained in the application, the purposes to which the proceeds from the Notes shall be applied, and the use of the Notes, appear to be reasonably required by AEP Ohio to meet its present and prospective obligations to provide utility service. Therefore, the Commission finds that the application should be approved, subject to Staff's recommended conditions.

III. ORDER

{¶ 8} It is, therefore,

{¶ 9} ORDERED, That AEP Ohio's application be approved, pursuant to the terms and conditions as described in the application, and subject to Staff's recommended conditions. It is, further,

{¶ 10} ORDERED, That AEP Ohio shall apply the proceeds from the Notes for the purposes set forth in this Finding and Order and otherwise pursuant to the provisions of R.C. 4905.40. It is, further,

{¶ 11} ORDERED, That the authorization granted by this Finding and Order shall not be construed as limiting the Commission's determination of the appropriateness of the Notes for future ratemaking treatment. It is, further,

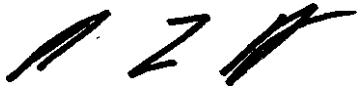
{¶ 12} ORDERED, That nothing in this Finding and Order be construed to imply any guaranty or obligation by the Commission to assure completion of any specific construction project of AEP Ohio. It is, further,

{¶ 13} ORDERED, That nothing in this Finding and Order be construed to imply any guaranty or obligation as to the Notes on the part of the state of Ohio. It is, further,

{¶ 14} ORDERED, That nothing in this Finding and Order be deemed to be binding upon this Commission in any future proceeding or investigation involving the justness or reasonableness of any rate, charge, rule, or regulation. It is, further,

{¶ 15} ORDERED, That a copy of this Finding and Order be served upon all parties of record.

THE PUBLIC UTILITIES COMMISSION OF OHIO


Asim Z. Haque, Chairman


M. Beth Trombold

Thomas W. Johnson

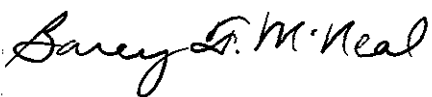

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Barcy F. McNeal
Secretary