FILE

4

Ohio | Public Utilities Commission

Asim Z. Haque, Chairman

Commissioners

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

November 23, 2018

RECEIVED-DOCKETING DIV
2018 NOV 23 AM 11:32
PUCO

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

RE: *In the Matter of the Application of AEP Ohio Transmission Company, Inc. for Authority to Issue and Sell Secured or Unsecured Promissory Notes and to Enter into Interest Rate Management Agreements*

Dear Docketing Division:

Enclosed please find the Staff's Review and Recommendations in regard to the Application of AEP Ohio Transmission Company, Inc. for Authority to issue Short-term Notes and Other Evidences of Indebtedness in Case No. 18-1340-EL-AIS.

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

Enclosure
Cc: Parties of Record

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 DM Date Processed 11/23/18

BEFORE
THE PUBLIC UTILITIES COMMISSION OF OHIO

In the Matter of the Application of AEP Ohio Transmission Company, Inc. for Authority to Issue and Sell Secured or Unsecured Promissory Notes and to Enter into Interest Rate Management Agreements	)))))	Case No. 18-1340-EL-AIS

Staff Review and Recommendation

APPLICATION DESCRIPTION

On August 27, 2018, AEP Ohio Transmission Company, Inc. ("OHTCo") filed its application and exhibits in the above case ("Application") with the Public Utilities Commission of Ohio (Commission") pursuant to R.C. 4905.40, 4905.42, and 4905.03(A)(3), requesting Commission authorization through December 31, 2019, to: (a) issue and sell secured or unsecured promissory notes (Notes); and (b) issue one or more unsecured promissory notes ("AEP Notes") to American Electric Power Company, Inc., or to its intermediate parent companies, AEP Transmission Holding Company, LLC, or AEP Transmission Company LLC ("AEP Transmission"). The Notes and AEP Notes (collectively, the "New Debt") will be issued for an aggregate principal amount of up to $350 million. OHTCo also proposes to enter into interest rate management agreements (the "Interest Agreements).

The New Debt may be sold by (i) competitive bidding; (ii) through negotiation with underwriters or agents; or (iii) by direct placement with a commercial bank or other institutional investor.

OHTCo proposes to use the proceeds from the New Debt to finance the construction, acquisition, maintenance, and/or modification or improvements to its new and existing electric transmission facilities; to refinance existing debt; to meet working capital needs (including construction expenditure); and to fund its other general corporate purposes.

REVIEW AND ANALYSIS

The parameters within which the New Debt will be issued are as follows: (a) a maturity of not more than 50 years; (b) interest rate will either be a fixed or a variable and not to exceed by more than 3% of the yield to maturity of US Treasury obligations of comparable maturities at the time of pricing; (c) the initial interest rate will not exceed 6% per annum if the New Debt is issued with a variable interest rate; and (d) the commission payable to agents and underwriters will not exceed 3.15% of the principal amount of the New Debt.

OHTCo proposes to use the proceeds to finance among other things in repaying short-term debt, term loan and for construction purposes. During 2018, OHTCo's actual capital construction expenditures (January to August) were approximately $327 million, and OHTCo anticipates spending approximately $194 million during the remainder of 2018. OHTCo currently plans to spend approximately $556 million for capital construction expenditures in 2019.

Pursuant to the Commission Order dated February 7, 2018, in Case No. 17-2091-EL-AIS (the "Current Order")[1], OHTCo was authorized through December 31, 2018, among other things, to issue a principal amount of up to $350 million of long-term securities ("Securities"). On September 7, 2018, OHTCo's direct parent company AEP Transmission sold an aggregate principal amount of $325 million 4.25% senior notes due September 15, 2048 ("Parent Offering"). Immediately following the Parent Offering, OHTCo issued to its parent pursuant to the Current Order, an aggregate principal amount of $115 million of Securities at terms identical to the Parent Offering. OHTCo does not intend to issue the unutilized authority of $235 million under the Current Order through the remainder of the authorization period. The authority to issue the New Debt in this case will supersede and replace the Current Order.

The following table summarizes OHTCo's capitalization structure as of September 30, 2018; the forecast for year end 2018 reflecting the anticipated retirement of maturing debt and equity growth; and the forecast for year end 2019 reflecting the full use of the proposed New Debt (less maturing debt of $33.9M) along with anticipated equity increases:

OHTCo CAPITALIZATION STRUCTURE (Actual and Pro-forma)

	Actual 09/30/2018 ($000)	(%)	Forecast 12/31/2018 ($000)	(%)	Forecast 12/31/2019 ($000)	(%)
Short-Term Debt	$ 0	0.0%	$ 63,424	2.3%	$ 63,963	1.9%
Long-Term Debt	$ 1,209,100	46.0%	$ 1,168,475	43.3%	$ 1,484,575	45.0%
Common Equity	$ 1,417,038	54.0%	$ 1,466,997	54.4%	$ 1,753,393	53.1%
Total Capitalization	$ 2,626,138	100.0%	$ 2,698,896	100.0%	$ 3,301,931	100.0%

The most recent credit ratings of OHTCo"s parent company, AEP Transmission, are investment grade consisting of A2 rating by Moody's Investors Service, A- by Standard and Poor's Financial Services, and an A- rating from Fitch Ratings. Each of the credit rating agencies assigned a stable outlook for AEP Transmission. Investment grade ratings such as these are indication of a low risk of default in servicing the debt, and they generally provide debt issuers full access to credit

[1] See *In the Matter of the Application of AEP Ohio Transmission Company for Authority to Issue and Sell Secured or Unsecured Promissory Notes and Enter into Interest Rate Management Agreements*, Case No. 17-2091-EL-AIS, Finding and Order (Feb. 7, 2018).

markets with more attractive terms and covenants. To the extent OHTCo is not rated by the major credit rating agencies, it becomes advantageous for OHTCo to issue long-term debt through its parent under the same terms that the parent issues its long-term debt from the debt market.

OHTCo requests authority to enter into Interest Rate Management Agreements ("Interest Agreements") to manage and minimize overall interest costs. In general, there would be no proceeds associated with Interest Agreements since no new obligations are created by those instruments.

RECOMMENDATION

Upon review of the Application and the supporting documents, Staff believes that OHTCo's request to issue the New Debt and entering into Interest Agreements appears reasonable and recommends the authority to be granted.