



Public Utilities Commission

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May 10, 2022

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

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. 22-0199-EL-AIS*

Dear Docketing Division:

Enclosed please find Staff's Review and Recommendation in regard to the application of Ohio Power Company for authority to issue short-term debt, Case No. 22-0199-EL-AIS.

A handwritten signature in black ink, reading "Tamara S. Turkenton".

Tamara Turkenton
Director
Rates and Analysis Department
Public Utilities Commission of Ohio

Enclosure

Cc: Parties of Record

BEFORE
THE PUBLIC UTILITIES COMMISSION OF OHIO

In the Matter of the Application of)	
Ohio Power Company for Authority)	Case No. 22-0199-EL-AIS
to Issue Short-Term Notes and other)	
Evidences of Indebtedness)	

Staff Review and Recommendation

APPLICATION DESCRIPTION

On March 15, 2022, Ohio Power Company (“Ohio Power”), a subsidiary of American Electric Power Company, Inc. (“AEP”), filed an application with exhibits (“Application”) with the Public Utilities Commission of Ohio (“Commission”). The Application seeks authorization to participate in the AEP System Utility Money Pool (“Money Pool”) and to make short-term borrowings from external sources or through the Money Pool in an aggregate principal amount not to exceed \$500 million at any one time (“Notes”) through May 31, 2023. The Application represents a renewal of authority granted by the Commission in a prior case (“Current Authority”). Ohio Power’s Current Authority expires on May 31, 2022.¹

Ohio Revised Code 4905.401 provides a statutory exemption allowing Ohio electric utilities to borrow up to five percent of the par value of all outstanding long-term securities without prior approval (“Statutory Exemption”) of the Commission. Any Ohio electric utility wishing to incur short-term obligations in excess of the Statutory Exemption must seek Commission authorization. As of March 31, 2022, Ohio Power could borrow up to \$165 million without prior Commission authorization² and had approximately \$56 million in short-term borrowings outstanding under its Current Authority.³

The Money Pool is used to coordinate and provide for certain of Ohio Power’s short-term cash requirements. Along with Ohio Power, direct and indirect subsidiaries of AEP (“Participating Companies”) also participate in the Money Pool. The program is administered by American Electric Power Service Corporation (“AEPSC”), a nonutility subsidiary of AEP. AEPSC, to the

¹ 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. 21-0172-EL-AIS, Finding and Order (May 5, 2021) (2021 AIS Case)

² Long-term debt of \$2,978,254,294 plus common stock of \$321,201,454 multiplied by 5 percent (2,978.3 + 321.2)*5% = 165.0

³ 2021 AIS Case, Report of Issuance for quarter ending March 31, 2022 (April 5, 2022)

extent possible, matches short-term cash surpluses and loan requirements of the Participating Companies. Services rendered by AEPSC are at cost. Both AEP and AEP Utility Funding LLC (“AEPUF”), a special purpose financing conduit, may fund the Money Pool but may not draw loans from it. The Application provides detail on the responsibilities of all parties to the Money Pool and its operation.

The Application states that Ohio Power intends to use funds from the Notes to: a) provide interim financing of maturing long-term debt; b) support capital expenditures; c) fund working capital; and d) repay previous borrowings related to these stated purposes. The interest rate applied to outstanding loan balances is the composite weighted average daily effective cost incurred by AEP for short-term borrowings from external sources for the Money Pool.

REVIEW AND ANALYSIS

Ohio Power’s rationale for renewal of short-term debt authority is that it provides flexibility to meet working capital requirements with a low-cost source of cash from the Money Pool while also financing investments in projects that improve reliability, that support technological innovation, and that support efforts to improve the customer experience. Ohio Power funds all assets with a combination of debt (both short- and long-term) and equity. In most cases, Ohio Power utilizes long-term debt issuances to term out (or extinguish) short-term debt. The ability to carry larger short-term debt balances provides flexibility for Ohio Power to issue larger long-term debt offerings, which may potentially create a pricing benefit for long-term debt issuances. Ohio Power did not have short-term debt outside of its borrowing from the Money Pool as of March 31, 2022.

The Application identifies Ohio Power’s possible uses of proceeds from the Notes and as a Money Pool participant. They include maturing long-term debt, working capital needs, and capital expenditures. The forecasted capital expenditures for Ohio Power are \$787 million in 2022 and \$849 million in 2023 (the Company’s forecast is subject to future review and changes).⁴

The credit ratings of Ohio Power influence the cost of its debt and its ability to borrow. The table below provides information concerning Ohio Power’s credit ratings. As depicted, Ohio Power has investment grade credit ratings from three ratings agencies.

	<u>Rating</u>	<u>Outlook</u>	<u>As of Date</u>
Moody’s	A3	Negative	August 2021
Standard & Poor’s	A-	Stable	May 2022
Fitch Ratings	A	Stable	March 2022

⁴ AEP, Inc. February/March 2022 Investor Meetings Handout at 18

RECOMMENDATION

Staff has reviewed the Application and recommends its approval considering Ohio Power's financial condition, credit profile, and anticipated financing needs. However, in order to provide safeguards to insulate Ohio Power from the financial risks associated with other parties in the Money Pool, Staff proposes that the Commission impose the following conditions on Ohio Power:

1. 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, 2023, and should be loaned to those Participating Companies that are regulated public utilities or such utilities' subsidiaries;
2. 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;
3. 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
4. Ohio Power shall also file in this case information relating to its participation in the Money Pool on a quarterly basis.

**This foregoing document was electronically filed with the Public Utilities
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5/10/2022 10:28:48 AM

in

Case No(s). 22-0199-EL-AIS

Summary: Staff Review and Recommendation in regard to the application of Ohio Power Company for authority to issue short-term debt electronically filed by Zee Molter on behalf of PUCO Staff