



Public Utilities Commission

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May 13, 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 and Sell Promissory Notes and to Enter into Interest Rate Management Agreements, Case No. 22-0200-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 long-term debt, Case No. 22-0200-EL-AIS.

A handwritten signature in black ink, appearing to read "Tamara S. Turkenton", written over a horizontal line.

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 to Issue and Sell)	Case No. 22-0200-EL-AIS
Promissory Notes and to Enter into Interest)	
Rate Management Agreements)	

Staff Review and Recommendation

APPLICATION DESCRIPTION

On March 15, 2022, Ohio Power Company (“Ohio Power”) filed an application and exhibits (“Application”) with the Public Utilities Commission of Ohio (“Commission”). The Application seeks authorization to make long-term borrowings, from time to time through May 31, 2023, in an aggregate amount not to exceed \$400 million.

Ohio Power proposes to issue its borrowings in the form of Senior or Subordinated Debentures or other promissory notes (“Notes”). In addition, Ohio Power proposes to issue to its parent, American Electric Power, Inc. (“AEP”), one or more promissory notes (“AEP Notes”), provided that the aggregate amount of the Notes and the AEP Notes will not exceed \$400 million. As proposed, the Notes and the AEP Notes (collectively, “New Debt”) will be governed by the same maturity and interest rate parameters.

The New Debt will be issued in one or more series with maturities of up to 60 years. The New Debt may have a fixed or variable coupon interest rate; the yield to maturity will not exceed that of a comparable US Treasury obligation by more than 400 basis points. If deemed advisable to issue Notes with a variable coupon interest rate, the initial yield to maturity will not exceed 6 percent. The Notes may include credit enhancements, redemption provisions, and restrictive covenants. Ohio Power anticipates placing the Notes through competitive bidding, negotiation with underwriters, or direct placement with an institutional investor. According to the Application, commission associated with placing the Notes will not exceed 3.5 percent of the principal amount sold.

Ohio Power also seeks approval to enter into Interest Rate Management Agreements to provide alternative financing arrangements and potentially reduce its effective interest expense. The Application identifies products commonly used in capital markets including interest rate swaps,

caps, and collars. The Interest Rate Management Agreements specified in the Application have been included in previous applications.¹

All proceeds from the proposed sale of the New Debt will be used to: a) pay at maturity or refund long-term debt; b) repay short-term indebtedness; c) fund construction; and d) provide for working capital and other corporate purposes.

REVIEW AND ANALYSIS

On June 2, 2021, the Commission authorized Ohio Power to make long-term borrowings of up to \$900 million through May 31, 2022 (“Current Authority”).² On September 13, 2021, Ohio Power issued \$600 million 2.90 percent Senior Notes Series R, due 2051 under the Current Authority.³ Ohio Power states that it does not intend to issue any additional debt remaining under its Current Authority.

Proceeds from the New Debt will be used to repay short-term indebtedness, to fund Ohio Power’s construction program, and to fund general corporate purposes. 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 requested authority for \$400 million provides flexibility and creates the potential to opportunistically access beneficial market conditions. Ohio Power will seek to place long-term debt securities in a cost-effective manner at the time of issuance. It is not possible to predict market conditions that will prevail during the period when the requested authority may be exercised. However, before issuing debt, Ohio Power solicits insights from banking partners to gauge investor demand and market sentiment for different terms to maturity and deal sizes.

The following table summarizes Ohio Power’s current capitalization as well as its pro-forma composition, reflecting the full utilization of the requested \$400 million in New Debt requested in its Application.

	Actual 03/31/2022 (\$ 000,000s)	(%)	Pro Forma (\$ 000,000s)	(%)
Long Term Debt	\$ 2,968.9	50.5%	\$3,368.9	53.6%
Total Equity	\$ 2,914.5	49.5%	\$ 2,914.5	46.4%
Total Capitalization	\$ 5,883.4	100%	\$ 6,283.4	100%

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. 21-0202-EL-AIS, Application (March 3, 2021) (2021 AIS Case)

² 2021 AIS Case, Finding and Order (June 2, 2021)

³ 2021 AIS Case, Report of Issuance (September 13, 2021)

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

As shown on a pro forma basis, the proposed financing will increase the use of debt by \$400 million in Ohio Power's capitalization. Ohio Power's capital structure is managed to reside within a range to support investment grade credit ratings. In addition, per existing debt covenants, Ohio Power must maintain a debt-to-total capitalization level of less than 67.5 percent.

The credit ratings of Ohio Power influence the cost of its debt. Ohio Power's credit ratings are investment grade at all three major rating agencies. The table below provides information concerning Ohio Power's credit ratings for senior unsecured debt as of May 5, 2022.

	<u>Rating</u>	<u>Outlook</u>
Moody's	A3	Negative
Standard & Poor's	A-	Stable
Fitch	A	Stable

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. The authority to issue the New Debt in this case shall supersede the authorization granted under the Current Authority.
4. 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).
5. 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 the proceeds from the New Debt in broad categories.

**This foregoing document was electronically filed with the Public Utilities
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in

Case No(s). 22-0200-EL-AIS

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