

# 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. 22-200-EL-AIS

## FINDING AND ORDER

Entered in the Journal on June 15, 2022

### 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. 21-202-EL-AIS, the Commission authorized AEP Ohio, through May 31, 2022, to issue and sell promissory notes of up to \$900 million and to enter into

interest rate management agreements. *In re Ohio Power Co.*, Case No. 21-202-EL-AIS, Finding and Order (June 2, 2021).

{¶ 5} On March 15, 2022, in the above-captioned case, AEP Ohio filed an application requesting Commission authorization, through May 31, 2023, to issue and sell unsecured promissory notes (Notes) of up to \$400 million and to enter into interest rate management agreements. In the application, AEP Ohio states that the Notes may be issued in the form of either senior or subordinated debentures or other promissory notes, including one or more unsecured promissory notes issued to its parent company, American Electric Power Company, Inc. (AEP). AEP Ohio proposes to use the proceeds from the Notes to pay at maturity or refund long-term debt; repay short-term indebtedness; fund its construction program; meet working capital needs; and fund other corporate purposes. AEP Ohio states that, as of December 31, 2021, it had approximately \$3 billion in long-term debt and no 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 13, 2022, Staff filed its review and recommendation. Staff states that AEP Ohio issued \$600 million in notes under the current authority granted in Case No. 21-202-EL-AIS and that AEP Ohio does not intend to issue any additional debt under that authority. With respect to the debt financing contemplated in the current application, Staff indicates that the Notes would be issued in one or more series with maturities of up to 60 years; have either a fixed or variable coupon interest rate; have a yield to maturity that will not exceed that of a comparable U.S. Treasury obligation by more than 400 basis points; have an initial yield to maturity that will not exceed six percent if a variable coupon interest rate applies; potentially include credit enhancements, redemption provisions, and restrictive covenants; be placed through competitive bidding, negotiation with underwriters, or direct

placement with an institutional investor; and have a commission that will not exceed 3.5 percent of the principal amount sold.

{¶ 7} Additionally, Staff reports that AEP Ohio plans to use the proceeds from the Notes for the repayment of short-term indebtedness, funding construction, and other corporate purposes. Staff notes that the forecasted capital expenditures for AEP Ohio are \$787 million in 2022 and \$849 million in 2023, subject to future review and changes. Staff also notes that it is not possible to predict market conditions that will prevail during the period when the requested authority may be exercised; however, according to Staff, AEP Ohio will solicit insight from banking partners, before issuing debt, to gauge investor demand and market sentiment for different terms to maturity and deal sizes and will seek to place long-term debt securities in a cost-effective manner at the time of issuance.

{¶ 8} 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) The authority in this case to issue the Notes shall supersede the authorization granted in Case No. 21-202-EL-AIS.

- (d) 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.
- (e) 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.

{¶ 9} Based on the information contained in the application and Staff's review and recommendation, 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

{¶ 10} It is, therefore,

{¶ 11} 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,

{¶ 12} 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,

{¶ 13} 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,

{¶ 14} 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,

{¶ 15} 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,

{¶ 16} 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,

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

COMMISSIONERS:

*Approving:*

Jenifer French, Chair  
M. Beth Trombold  
Lawrence K. Friedeman  
Daniel R. Conway  
Dennis P. Deters

GAP/hac

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

Summary: Finding & Order approving 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 electronically filed by Ms. Mary E. Fischer on behalf of Public Utilities Commission of Ohio