



# Public Utilities Commission

**Mike DeWine**, Governor  
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## Commissioners

M. Beth Trombold  
Lawrence K. Friedeman  
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November 18, 2022

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, Case No. 22-0874-EL-AIS*

Dear Docketing Division:

Enclosed please find Staff's Review and Recommendation in regard to the application of AEP Ohio Transmission Company, Inc. for authority to issue long-term debt and enter into interest rate management agreements, Case No. 22-0874-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 AEP Ohio	)	
Transmission Company, Inc. for Authority to	)	Case No. 22-0874-EL-AIS
Issue and Sell Secured or Unsecured	)	
Promissory Notes and to Enter into Interest	)	
Rate Management Agreements		

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**Staff Review and Recommendation**

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**APPLICATION DESCRIPTION**

On September 14, 2022, AEP Ohio Transmission Company, Inc. (“OHTCo”) filed an application and exhibits (“Application”) with the Public Utilities Commission of Ohio (“Commission”). The Application seeks Commission authorization to make long-term borrowings from time to time through December 31, 2023, in an aggregate amount not to exceed \$350 million.

OHTCo proposes to issue and sell secured or unsecured promissory notes (“Long-term Debt Securities”), which may consist of first mortgage bonds, notes, debentures, and preferred securities. In addition, OHTCo may issue one or more unsecured promissory notes to American Electric Power Company, Inc. or to the intermediate parent companies, AEP Transmission Holding Company, LLC or AEP Transmission Company, LLC (collectively, “AEP Notes”). The Long-term Debt Securities and AEP Notes (collectively, “New Debt”) will be effectuated in compliance with applicable indenture and other standards related to OHTCo’s capitalization.

The Long-term Debt Securities will be issued with maturities of not less than 12 months and not more than 50 years. The coupon interest rate of any Long-term Debt Security may be fixed or variable. Any fixed rate issue will have a yield to maturity that does not exceed that of a comparable U.S. Treasury obligation by more than 4 percent. For Long-term Debt Securities with a variable coupon interest rate, the initial yield to maturity will not exceed 6 percent. The interest rate and maturity parameters governing the Long-term Debt Securities would also apply to the AEP Notes. In addition, the Long-term Debt Securities may include credit enhancements, sinking fund provisions, and restrictive covenants as described in the Application.

OHTCo anticipates placing the Long-term Debt Securities through competitive bidding, negotiation with underwriters, or direct placement with an institutional investor. According to the Application, the commission payable associated with placing the Long-term Debt Securities will not exceed 3.15 percent of the principal amount sold.

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

OHTCo also requests authority to enter into Interest Rate Management Agreements ("Interest Agreements") to reduce and manage interest costs on financings. The Application identifies products commonly used in capital markets including interest rate swaps, caps, and collars. The Interest Agreements specified in the Application have been included in previous applications.<sup>1</sup>

## **REVIEW AND ANALYSIS**

On December 15, 2021, the Commission authorized OHTCo to make long-term borrowings of up to \$350 million through December 31, 2022 ("Current Authority").<sup>2</sup> OHTCo has issued \$230 million of long-term indebtedness under the Current Authority.<sup>3</sup> OHTCo has authority to issue up to \$120 million of additional long-term indebtedness under the Current Authority. However, OHTCo has indicated to Staff that it does not intend to issue any additional debt under the Current Authority.

A portion of the requested authorization of New Debt will be incremental to OHTCo's existing debt capitalization. There is a \$37.8 million maturity of the Senior Note Series B in November 2023, but it is not expected to be refinanced. In addition, OHTCo has indicated that there are no outstanding long-term debts identified for early redemption. The proceeds of authorized new issuances are to be used to repay short-term indebtedness, fund OHTCo's construction program, and other corporate purposes. OHTCo had \$405 million of capital expenditures as of September 30, 2022, with an additional \$160 million estimated for the remainder of this year. Approximately \$490 million of capital spend is expected in 2023.

OHTCo will seek to price and place long-term debt securities in a cost-effective manner, given investor demand. Prior to the issuance, feedback from investment banking partners is solicited to assess sentiment for different maturity terms and deal sizes. It is not possible to predict market conditions that will prevail during the period when the requested authority may be exercised. However, current yield spreads of comparable maturities are lower than the 400 basis points parameter included in the Application. This provision provides flexibility to issue long-term borrowings if market conditions change and yields and credit spreads increase. The requested authority for \$350 million provides flexibility to issue at any point after the expiration of the Current Authority, creating the potential to opportunistically access beneficial market conditions.

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<sup>1</sup> See *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. 21-0980-EL-AIS, Application (September 21, 2021) (2021 AIS Case).

<sup>2</sup> 2021 AIS Case, Finding and Order (December 15, 2021).

<sup>3</sup> 2021 AIS Case, Report of Securities Issued (June 9, 2022).

The following table presents OHTCo’s current capitalization as well as its pro-forma composition, reflecting the full utilization of the requested \$350 million of New Debt in its Application. The table also gives effect to: the \$83.2 million Senior Note Series A that matured in October 2022; the \$37.8 million Senior Note Series B maturing November 2023; and anticipated equity accumulation through December 31, 2023.

	<b>Actual 09/30/2022 (\$ 000s)</b>	<b>(%)</b>	<b>Pro Forma 12/31/2023 (\$ 000s)</b>	<b>(%)</b>
Long Term Debt	\$ 2,010,700	45.5%	\$ 2,239,700	46.1%
Total Equity	\$ 2,409,692	54.5%	\$ 2,623,729	53.9%
Total Capitalization	\$ 4,420,392	100%	\$ 4,863,429	100%

As shown in the table above, the proposed financing will not significantly increase the proportion of debt in OHTCo’s pro forma capitalization. OHTCo intends to maintain a balanced capital structure. Proceeds of any long-term debt offerings, together with funds from operations and parent equity contributions, are used to pay for capital expenditures and repay short-term debt.

OHTCo is not rated by Moody’s Investors Service, Standard & Poor’s, or Fitch Ratings. However, AEP Transmission Company, LLC (“AEP TransCo”), which is the parent company of OHTCo, is rated by these agencies. The table below provides information concerning AEP TransCo’s current credit ratings.

	<b><u>Rating</u></b>	<b><u>Outlook</u></b>
Moody’s	A2	Stable
Standard & Poor’s	A-	Stable
Fitch	A	Stable

It is generally advantageous for AEP Transco to issue debt and accept an intercompany note from OHTCo with terms identical to the debt issued by the parent. Under the Current Authority, this arrangement was utilized to place debt with OHTCo.<sup>4</sup> AEP Transco’s investment grade credit ratings are indicative of a low risk of default in servicing the debt; such ratings generally provide debt issuers full access to credit markets with relatively attractive terms and covenants.

Lastly, OHTCo is also seeking authority to enter into Interest Agreements with the expressed purposes of striving to reduce and to manage interest costs on financings. Interest Agreements do not create additional claims on OHTCo’s cash flow nor influence the level of debt outstanding.

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<sup>4</sup> Id.

## **RECOMMENDATION**

Upon review of the Application, Staff believes it appears to be reasonable and recommends its approval with the following conditions:

- 1) The Commission shall direct OHTCo to file summary reports, in this case docket, within 30 days of issuing any New Debt under the authority granted in this case. The summary report should summarize the principal amounts issued, interest rate(s), type of security issued, issuance costs, premiums or discounts, redemption provisions, maturity date(s), and other terms and full particulars of the debt issued, as well as the use of the proceeds from the New Debt.
- 2) The Commission shall direct OHTCo to file summary reports, in this case docket, within 30 days of executing an Interest Agreement. The summary report should summarize the type of instrument utilized along with full details about the transaction(s) and the anticipated interest cost savings and/or other interest cost management benefits that warranted the transaction(s).

**This foregoing document was electronically filed with the Public Utilities  
Commission of Ohio Docketing Information System on**

**11/18/2022 3:28:29 PM**

**in**

**Case No(s). 22-0874-EL-AIS**

Summary: Staff Review and Recommendation regarding 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 electronically filed by Zee Molter on behalf of PUCO Staff