



Public Utilities Commission

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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 Short-Term Notes and Other Forms of Indebtedness, Case No. 22-0875-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 short-term debt and participate in a utility money pool, Case No. 22-0875-EL-AIS.

A handwritten signature in black ink, reading "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) Case No. 22-0875-EL-AIS
Authority to Issue Short-term Notes)
and Other Evidences of Indebtedness)

Staff Review and Recommendation

APPLICATION DESCRIPTION

On September 14, 2022, AEP Ohio Transmission Company, Inc. (“OHTCo”) filed an application with exhibits (“Application”) with the Public Utilities Commission of Ohio (“Commission”). The Application seeks authorization, through December 31, 2023, to participate in the AEP System Utility Money Pool (“Money Pool”), make short-term borrowings from it, and to make short-term borrowings from sources external to the Money Pool (“Intercompany Borrowings”). The Application identifies American Electric Power Company, Inc. (“AEP”), AEP Transmission Holding Company, LLC, and AEP Transmission Company, LLC (“AEP TransCo”) as the providers of Intercompany Borrowings. The aggregate amount of Money Pool borrowings and Intercompany Borrowings is not to exceed \$250 million at any one time. The Application represents a renewal of authority granted by the Commission in a prior case (“Current Authority”).¹ OHTCo’s Current Authority expires on December 31, 2022.

The Application states that OHTCo intends to use short-term obligations to: a) provide interim financing of its capital expenditure program; b) fund working capital needs; and c) repay previous borrowings related to these purposes. The interest rate applied to outstanding loans from the Money Pool is the composite weighted average daily effective cost incurred by AEP for short-term borrowings from external sources for the Money Pool. The interest rate on Intercompany Borrowings will duplicate the rate on short-term borrowings from the Money Pool.

Ohio Revised Code 4905.401 provides a statutory exemption permitting Ohio electric utilities to borrow up to five percent of the par value of all outstanding long-term securities without the Commission’s prior approval (“Statutory Exemption”). Any Ohio electric utility wishing to incur short-term obligations in excess of the exempted amount must seek Commission authorization.

¹ See *In the Matter of the Application of AEP Ohio Transmission Company, Inc. for Authority to Issue Short-Term Notes and Other Evidences of Indebtedness*, Case No. 21-0981-EL-AIS, Finding and Order (December 15, 2021).

REVIEW AND ANALYSIS

As of September 30, 2022, OHTCo could borrow up to \$96 million under the Statutory Exemption without prior Commission authority. OHTCo had zero outstanding borrowings through the Money Pool as of September 30, 2022, but it has demonstrated a need for short-term funding through 2023 that exceeds the amount permitted by the Statutory Exemption.

OHTCo's rationale for renewal of short-term debt authority is its continued investment in projects dedicated to improving system reliability and resiliency, supporting innovative technologies, enhancing market efficiencies and improving the customer experience. OHTCo funds all assets with a combination of debt (both short and long-term) and equity. In most cases, OHTCo 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 OHTCo to issue larger long-term debt offerings, which may potentially create a pricing benefit for long-term debt issuances. The \$250 million short-term debt authority is consistent with the amount sought in the previous applications.² OHTCo's request to make Intercompany Borrowings and participate in the Money Pool granted in this case is to supersede the short-term borrowing authority under the Current Authority.

The Application identifies OHTCo's possible uses of proceeds from the Intercompany Borrowings and as a Money Pool participant. They include maturing long-term debt, funding working capital needs and capital expenditures. OHTCo had \$405 million of capital expenditures as of September 30, 2022, with an additional \$160 million estimated for the remainder of this year. OHTCo anticipates approximately \$490 million of capital expenditures during 2023.

The Money Pool is used to coordinate and provide for certain of OHTCo's short-term cash requirements. Along with OHTCo, 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 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 Money Pool provides financial liquidity at rates that are generally more attractive than those obtained through outside financing. OHTCo is not obligated to borrow from the Money Pool if lower cost funds can be obtained from its own external borrowing.

OHTCo is not a rated entity. However, its parent company AEP TransCo has investment grade credit ratings from Moody's Investors Service (A2 with a Stable Outlook), Standard and Poor's (A- with a Stable Outlook) and Fitch Ratings (A with a Stable Outlook).

² Id.

STAFF RECOMMENDATION

Staff has reviewed the Application and recommends its approval. However, in order to provide safeguards to insulate OHTCo from the financial risks associated with other Participating Companies, Staff proposes the following conditions be imposed on OHTCo's participation in the Money Pool:

- (a) Funds provided by OHTCo to the Money Pool and borrowed therefrom by the Participating Companies shall not exceed \$250 million, at any one time through December 31, 2023, and should be loaned to those Participating Companies that are regulated public utilities or subsidiaries of such utilities.
- (b) 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, OHTCo shall report to the Commission, in this 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 OHTCo;
- (c) 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, OHTCo shall file the full details of such condition(s) in this case docket within 10 days of such event; and
- (d) OHTCo shall also file in this case docket information relating to its participation in the Money Pool on a quarterly basis.

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Case No(s). 22-0875-EL-AIS

Summary: Staff Review and Recommendation regarding the Application of AEP Ohio Transmission Company, Inc. for authority to issue short-term debt and participate in a utility money pool electronically filed by Zee Molter on behalf of PUCO Staff