

147 FERC ¶ 61,076  
UNITED STATES OF AMERICA  
FEDERAL ENERGY REGULATORY COMMISSION

Before Commissioners: Cheryl A. LaFleur, Acting Chairman;  
Philip D. Moeller, John R. Norris,  
and Tony Clark.

AEP Appalachian Transmission Company, Inc.	Docket Nos.	ES14-21-000
AEP Indiana Michigan Transmission Company, Inc.		ES14-21-001
AEP Kentucky Transmission Company, Inc.		
AEP Oklahoma Transmission Company, Inc.		
AEP Southwestern Transmission Company, Inc.		
AEP West Virginia Transmission Company, Inc.		

ORDER AUTHORIZING ISSUANCES OF SECURITIES

(Issued April 30, 2014)

1. On January 13, 2014, as supplemented on February 21, 2014, AEP Indiana Michigan Transmission Company, Inc. (I&M Transco), AEP Kentucky Transmission Company, Inc. (KY Transco), AEP Oklahoma Transmission Company, Inc. (OK Transco), AEP Southwestern Transmission Company, Inc. (Southwestern Transco), and AEP West Virginia Transmission Company, Inc. (WV Transco) (collectively, the Original Applicants), filed an application pursuant to section 204 of the Federal Power Act (FPA)<sup>1</sup> requesting authorization to issue the securities described below.<sup>2</sup> On March 11, 2014, the Original Applicants, together with AEP Appalachian Transmission Company, Inc. (APCo Transco) filed an amended and restated application.<sup>3</sup> We will grant the authorizations, as discussed below.

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<sup>1</sup> 16 U.S.C. § 824c (2012).

<sup>2</sup> See Application Under Section 204 of the Federal Power Act for Authorization to Issue Securities, Docket No. ES14-21-000 (Jan. 13, 2014) (January Application); Supplemental Application Under Section 204 of the Federal Power Act for Authorization to Issue Securities, Docket No. ES14-21-000 (Feb. 18, 2014) (February Supplement).

<sup>3</sup> See Amended and Restated Application Under Section 204 of the Federal Power Act for Authorization to Issue Securities, Docket No. ES14-21-001 (Mar. 11, 2014) (Restated Application). The Original Applicants, together with APCo Transco, are referred to collectively as Applicants.

## I. Background

2. Applicants state that they are public utilities that own, or will own, and operate transmission assets in their respective operating jurisdictions. APCo Transco is a Virginia corporation organized in 2009 that operates in Virginia. I&M Transco is an Indiana corporation organized in 2009 that operates in Indiana and Michigan. KY Transco is a Kentucky corporation organized in 2009 that operates in Kentucky. OK Transco is an Oklahoma corporation organized in 2009 that operates in Oklahoma. Southwestern Transco is a Delaware corporation organized in 2009 that operates in Arkansas and Louisiana. WV Transco is a West Virginia corporation organized in 2009 that operates in West Virginia. AEP Transmission Holding Company, LLC (AEP Transmission Holding), a wholly-owned subsidiary of American Electric Power Company, Inc. (AEP), owns all of the common stock of Applicants.<sup>4</sup>

3. Previously, in Docket No. ES12-24-000, Applicants were authorized to issue short-term debt, in the form of commercial paper, promissory notes and other forms of short-term indebtedness, in amounts not to exceed the following:

APCo Transco	\$40 million
I&M Transco	\$125 million
KY Transco	\$20 million
OK Transco	\$100 million
Southwestern Transco	\$40 million
WV Transco	\$35 million

OK Transco and Southwestern Transco were also authorized to issue long-term debt, in the form of first mortgage bonds, pollution control revenue bonds, secured and unsecured notes, and debentures and preferred securities, in an aggregate amount not to exceed \$100 million for OK Transco and \$40 million for Southwestern Transco.<sup>5</sup>

4. In Docket No. ES13-35-000, WV Transco was authorized to issue secured and unsecured long-term debt securities consisting of first mortgage bonds, notes (secured and unsecured, including notes issued in connection with bank facilities), debentures, and preferred securities in an aggregate principal amount not to exceed \$175 million.<sup>6</sup>

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<sup>4</sup> *Id.* at 1-2.

<sup>5</sup> See *AEP Appalachian Transmission Co., Inc.*, 139 FERC ¶ 62,111 (2012) (as corrected by Errata Notice issued on May 16, 2012 in Docket No. ES12-24).

<sup>6</sup> See *AEP West Virginia Transmission Co., Inc.*, 144 FERC ¶ 62,238 (2013).

5. According to Applicants, the authority requested in the Restated Application “will supersede the authority granted by this Commission in Docket No. ES12-24-000 (May 10, 2012).”<sup>7</sup> Applicants note, however, that the authority requested in the Restated Application “will not supersede the authority granted by this Commission in Docket No. ES13-35-000 (September 12, 2013) (granting WV Transco authority to issue \$175 million of long term indebtedness).”<sup>8</sup>

## II. Application

6. Applicants request authority to issue short-term and long-term debt for two years from the date of issuance of a Commission order authorizing the requested authorizations (Authorization Period).<sup>9</sup> Applicants note that they are currently in “various stages of commercial operation,”<sup>10</sup> and that during the Authorization Period, they anticipate capital expenditures for the construction of new transmission facilities.<sup>11</sup> Applicants explain that the funds obtained through the issuance of the debt securities for which they seek authorization will be used, along with other available funds, “to finance the construction, acquisition, maintenance, and/or modification or improvements to, new and existing electric transmission facilities, to refinance existing debt, to meet working capital needs (including construction expenditures),”<sup>12</sup> and for other general corporate purposes.

7. Applicants state that the facts set out in the Restated Application show that the proposed financing transactions are for lawful purposes, to fund the day-to-day operations of the Applicants, which are within the corporate purposes of the Applicants as set forth in their respective articles of incorporation and properly authorized by their respective board of directors.<sup>13</sup> Applicants further explain that the issuance of debt securities proposed in the Restated Application is necessary, appropriate for and consistent with the proper performance by the Applicants of their respective service obligations as public utilities.

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<sup>7</sup> Restated Application at 3.

<sup>8</sup> *Id.* at 3-4.

<sup>9</sup> *Id.*

<sup>10</sup> *Id.* at 9.

<sup>11</sup> *Id.*

<sup>12</sup> *Id.* at 10.

<sup>13</sup> *Id.* at 10-11.

**A. Short-term Debt**

8. Applicants seek authority to issue commercial paper, promissory notes and other forms of short-term indebtedness having varying maturities not to exceed one year in aggregate amounts not to exceed the following at any one time (Short-term Debt Limits):

APCo Transco	\$40 million
I&M Transco	\$180 million
KY Transco	\$75 million
OK Transco	\$125 million
Southwestern Transco	\$75 million
WV Transco	\$175 million <sup>14</sup>

9. Applicants propose to issue short-term indebtedness either directly, to either third party lenders or to Applicants' holding company parents (AEP, AEP Transmission Holding, and AEP Transmission Company, LLC (collectively, Parents)), or through the Utility Money Pool,<sup>15</sup> provided that aggregate short-term borrowings do not exceed the applicable Short-term Debt Limit.<sup>16</sup>

10. Applicants state that the interest rate for any short-term debt will not exceed the greater of: (i) the 1-month, 2-month, 3-month, 6-month, or 12-month London Interbank Offered Rate (LIBOR) in effect at the time of borrowing, as referenced in the Wall Street Journal at <http://online.wsj.com>, plus up to 400 basis points, or (ii) the greater of the federal funds rate or the prime rate (defined as the rate of interest per annum publicly announced from time to time by JPMorgan Chase Bank, N.A. as its prime rate in effect at

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<sup>14</sup> As noted above, Applicants explain that the request for authorization for WV Transco to issue \$175 million in short-term indebtedness in the Restated Application is in addition to the authorization granted to WV Transco to issue \$175 million in long-term indebtedness through September 12, 2015 as set forth in Docket No. ES13-35-000. *Id.* at n.1.

<sup>15</sup> Commission-regulated entities are required to file their cash management agreements with the Commission. The information provided is used to aid the Commission in monitoring cash management programs. *See Regulation of Cash Management Practices*, Order No. 634-A, FERC Stats. & Regs. ¶ 31,152 (2003) (Order No. 634-A). Applicants state that the current Utility Money Pool Agreement has been filed with the Commission pursuant to 18 C.F.R. § 141.500 in accordance with Order No. 634-A. Restated Application at 6.

<sup>16</sup> Restated Application at 4.

its principal office in New York City) in effect at the time of borrowing, plus up to 400 basis points.<sup>17</sup>

### **B. Long-term Debt**

11. KY Transco seeks authority to issue long-term indebtedness in aggregate amounts, regardless of any short-term debt outstanding, not to exceed \$75 million. KY Transco requests Commission authorization to issue secured or unsecured long-term debt securities having maturities of up to 60 years that may consist of first mortgage bonds, notes (secured and unsecured) and debentures and preferred securities. KY Transco also requests authorization to issue long-term debt to one or more Parents.<sup>18</sup>

12. Applicants state that the interest rate on the long-term debt will be based upon the 30-year U.S. Treasury Rate, as referenced at [www.treasury.gov](http://www.treasury.gov), at the time of issuance, plus up to 500 basis points.<sup>19</sup>

### **C. Request for Waiver**

13. KY Transco requests waiver of the Commission's competitive bidding or negotiated placement requirements set forth in the Commission's regulations, 18 C.F.R. §§ 34.2(a) and 34.2(c)(1) (2013), as applicable to the long-term debt securities that it proposes to issue.<sup>20</sup> KY Transco states that upon issuing long-term debt it will select underwriters, commercial and investment banks, insurance company or private placement agents that are knowledgeable about its business and finances and with the capability to maximize its access to capital markets and minimize its cost of funds. KY Transco also states that it will review fees, commissions and expenses incurred in similar transactions to ensure that the fees, commissions and expenses of the underwriter or private placement agent are consistent with those incurred in similar transactions. KY Transco states that it

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<sup>17</sup> *Id.* at 6-7.

<sup>18</sup> *Id.* at 7-8.

<sup>19</sup> *Id.* at 8-9.

<sup>20</sup> Section 34.2 sets forth the Commission's requirements regarding placements of securities. Among other things, the regulation states that utilities may issue securities by either a competitive bid or negotiated placement, provided that competitive bids are obtained from at least two prospective dealers, purchasers, or underwriters, or that negotiated offers are obtained from at least three prospective dealers, purchasers or underwriters.

is committed to issuing securities with the best rates and terms for its customers and stockholders. KY Transco believes it has implemented the necessary procedures to analyze the market in order to obtain the best rates at the lowest cost available. KY Transco believes there would be no advantage to requiring it to competitively bid or negotiate placements pursuant to the provisions of 18 C.F.R. § 34.2.

### **III. Notice of Filing**

14. Notice of the January Application was published in the *Federal Register*, 79 Fed. Reg. 3584 (2014), with interventions and protests due on or before February 3, 2014. None was filed.

15. Notice of the February Supplement was published in the *Federal Register*, 79 Fed. Reg. 11,777 (2014), with interventions and protests due on or before March 3, 2014. None was filed.

16. Notice of the Restated Application was published in the *Federal Register*, 79 Fed. Reg. 15,327 (2014), with interventions and protests due on or before April 1, 2014. None was filed.

### **IV. Discussion**

17. FPA section 204(a) provides that requests for authorization to issue securities or to assume any obligation or liability as guarantor, indorser, surety, or otherwise in respect of any security of another person shall be granted if the Commission finds that the issuance or assumption: (1) is for some lawful object, within the corporate purposes of the applicant and compatible with the public interest, which is necessary or appropriate for or consistent with the proper performance by the applicant of service as a public utility and which will not impair its ability to perform that service; and (2) is reasonably necessary or appropriate for such purposes.<sup>21</sup>

18. Typically, under FPA section 204, the Commission utilizes an interest coverage calculation in order to determine whether the undertaking “will not impair [a public utility’s] ability to perform” service as a public utility.<sup>22</sup> And, typically, the Commission bases its finding that a proposed issuance of securities will not impair an applicant’s

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<sup>21</sup> 16 U.S.C. § 824c(a) (2012).

<sup>22</sup> 16 U.S.C. § 824c(a) (2012); *see, e.g., Mississippi Power Co.*, 145 FERC ¶ 61,218, at P 19 (2013); *Transource Missouri, LLC*, 145 FERC ¶ 61,146, at P 19 (2013) (*Transource Missouri*).

ability to perform service as a public utility upon the applicant's demonstration that it will have an interest coverage ratio that is 2.0 or higher.<sup>23</sup>

19. Each Applicant has filed, as Exhibits C, D and E to the Restated Application, *pro forma* financial statements as of September 30, 2013. Exhibit E of the Restated Application shows that none of the Applicants meet the 2.0 interest coverage threshold. The *pro forma* interest coverage ratio of each Applicant is listed as follows:

APCo Transco	0.23
I&M Transco	1.15
KY Transco	0.00
OK Transco	1.81
Southwestern Transco	neg 0.08
WV Transco	neg 0.01

20. Applicants explain that they anticipate that interest expense generated by any new short- or long-term borrowing will be recoverable in utility rates.<sup>24</sup> Applicants note that, on April 21, 2011, the Commission approved a settlement agreement in Docket Nos. ER10-355-000 and ER10-355-001 regarding transmission formula rates (Settlement Agreement). Each Applicant was a party to the Settlement Agreement. According to Applicants, the terms of the Settlement Agreement set forth the cost of service and formula rate settlement principles for Applicants regarding changes to their annual formula rate and revenue requirement for transmission services under the Open Access Transmission Tariff for PJM Interconnection, LLC and Southwest Power Pool, Inc., respectively. Applicants state that their Commission-approved formula rate mechanism “provides for the recovery of all costs associated with investments in transmission facilities, including the cost of operation and maintenance expense, depreciation and amortization expense, interest expense and financing costs, as well as other prudently incurred costs related to the transmission facilities.”<sup>25</sup> Given their Commission-approved transmission tariff, Applicants request that the Commission grant their request for short-

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<sup>23</sup> *Startrans IO, L.L.C.*, 122 FERC ¶ 61,253, at P 18 (2008) (stating that “this screen is a mid-way number in a range that has been used by lenders and borrowers and provides a buffer against unforeseen, adverse financial events that might impair Startrans IO’s ability to perform as a public utility”).

<sup>24</sup> Restated Application at 9.

<sup>25</sup> *Id.*

and long-term issuance authority “with the comfort that all debt service costs will be recovered through each Applicants’ [*sic*] transmission cost of service formula rate.”<sup>26</sup>

21. As noted above, in section 204 filings, the Commission utilizes an interest coverage ratio calculation in its evaluation of a public utility’s financial viability, and generally requires an applicant filing under FPA section 204 to demonstrate, on a *pro forma* basis, that net income will equal or exceed twice total interest expense.<sup>27</sup> In this case, each Applicant’s *pro forma* interest coverage ratio is below 2.0. Other factors, however, provide the Commission with an alternative basis upon which the Commission may conclude that the proposed issuances and assumptions of short-term and long-term debt will not impair Applicants’ ability to service the proposed debt securities and continue to provide service as public utilities. Specifically, Applicants’ individual formula rate mechanisms approved by the Commission provide for the recovery of all costs associated with investments in transmission facilities, including the costs of operation and maintenance expense, depreciation and amortization expense, interest expense and financing costs, as well as other prudently incurred costs related to the transmission facilities.<sup>28</sup>

22. We find, based on the statements set forth in the Restated Application, that Applicants have demonstrated that the proposed issuances of securities described in the Restated Application: (1) are for lawful objects within the corporate purposes of each of the Applicants and compatible with the public interest, are necessary or appropriate for, or consistent with, the proper performance by each of the Applicants of service as public utilities, and will not impair their ability to perform that service; and (2) are reasonably necessary or appropriate for such purposes.

23. Accordingly, based upon the terms and conditions and for the purposes specified in the Restated Application, the following companies are authorized to issue short-term debt, as described in the Restated Application, and at the interest rates described in the Restated Application, in aggregate amounts not to exceed the following amounts:

APCo Transco	\$40 million
I&M Transco	\$180 million
KY Transco	\$75 million
OK Transco	\$125 million

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<sup>26</sup> Restated Application at 10.

<sup>27</sup> *E.g.*, *Startrans*, 122 FERC ¶ 61,253 at P 18.

<sup>28</sup> *See Transource Missouri*, 145 FERC ¶ 61,146 at P 21.

Southwestern Transco	\$75 million
WV Transco	\$175 million

24. We also, based upon the terms and conditions and for the purposes specified in the Restated Application, authorize KY Transco to issue long-term debt, as described in the Restated Application, and at the interest rates described in the Restated Application, in an aggregate amount not to exceed \$75 million.

25. We grant these authorizations effective as of the date of this order, for a duration of two years. We also grant the requested waiver of the Commission's competitive bidding and negotiated placement requirements applicable to long-term debt.

26. In *Westar*, the Commission announced four restrictions on all future public utility issuances of secured and unsecured debt.<sup>29</sup> First, public utilities seeking authorization to issue debt backed by a utility asset must use the proceeds of the debt for utility purposes. Second, if any utility assets that secure debt issuances are divested or "spun off," the debt must follow the asset and also be divested or spun off. Third, if any of the proceeds from unsecured debt are used for non-utility purposes, the debt must follow the non-utility assets. Specifically, if the non-utility assets are divested or spun off, then a proportionate share of the debt must follow the divested or spun off non-utility asset. Finally, if utility assets financed by unsecured debt are divested or spun off to another entity, then a proportionate share of the debt must also be divested or spun off. In the Restated Application, Applicants acknowledge that any secured or unsecured debt securities issued pursuant to the authorizations requested in the Restated Application will be subject to, and we will condition our authorizations granted here upon, the four restrictions on such securities specified in *Westar*.<sup>30</sup>

The Commission orders:

(A) Applicants are hereby authorized to issue short-term debt in the amounts and at the interest rates stated in the body of this order. KY Transco is hereby authorized to issue long-term debt in aggregate amounts not to exceed \$75 million at the interest rates stated in the body of this order.

(B) The authorizations are effective as of the date of this order and terminate at the expiration of the Authorization Period.

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<sup>29</sup> *Energy, Inc. Westar*, 102 FERC ¶ 61,186, at PP 20-21, (2003) (*Westar*).

<sup>30</sup> Restated Application at 11.

(C) These authorizations supersede the previous authorization granted in the letter order issued in Docket No. ES12-24-000, on May 10, 2012, in its entirety.

(D) The authorizations granted in this order are subject to the restrictions specified in the body of this order and the restrictions on secured and unsecured debt as outlined in *Westar*.

(E) KY Transco is hereby granted waiver of the Commission's competitive bidding and negotiated placement requirements at 18 C.F.R. § 34.2(a) (2013).

(F) KY Transco must file a Report of Securities Issued, under 18 C.F.R. §§ 34.9 and 131.43 and 131.50 (2013), no later than 30 days after the sale or placement of long-term debt or equity securities or the entry into guarantees or assumptions of liabilities.

(G) The authorizations granted in this order are without prejudice to the authority of the Commission or any other regulatory body with respect to rates, service, accounts, valuation, estimates or determination of cost or any other matter whatsoever now pending or which may come before this Commission.

(H) Nothing in this order shall be construed to imply any guarantee or obligation on the part of the United States with respect to any security to which this order relates.

By the Commission.

( S E A L )

Nathaniel J. Davis, Sr.,  
Deputy Secretary.