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STATE OF INDIANA

INDIANA UTILITY REGULATORY COMMISSION

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| **IN THE MATTER OF THE PETITION OF AEP GENERATING COMPANY FOR ALL NECESSARY AUTHORITY IN CONNECTION WITH A $150,000,000 FINANCING PROGRAM INVOLVING THE ISSUANCE OF SECURED OR UNSECURED PROMISSORY NOTES OF ONE OR MORE NEW SERIES.** | ) | **CAUSE NO. 44467**<br><br>**APPROVED:** JUL 30 2014 |

**ORDER OF THE COMMISSION**

**Presiding Officers:**
**Carol A. Stephan, Commission Chair**
**Jeffery A. Earl, Administrative Law Judge**

On March 20, 2014, AEP Generating Company ("AEPG") filed its Verified Petition in this Cause. On March 24, 2014, AEPG prefiled the direct testimony and exhibits of Jerald R. Boteler, Jr., Managing Director, Corporate Finance for AEPG and American Electric Power Service Corporation in support of its Petition.

On May 15, 2014, the Indiana Office of the Utility Consumer Counselor ("OUCC") prefiled the direct testimony and exhibits of Crystal L. Thacker, Utility Analyst in the OUCC's Electric Division.

On May 28, 2014, AEPG prefiled Mr. Boteler's rebuttal testimony.

The Commission held an Evidentiary Hearing in this Cause at 9:30 a.m. on June 12, 2014, in Hearing Room 224, 101 West Washington Street, Indianapolis, Indiana. AEPG and the OUCC appeared at and participated in the hearing. No member of the general public appeared.

Based on the applicable law and the evidence presented, the Commission finds:

**1.** **Notice and Jurisdiction.** Notice of the hearing in this Cause was given and published as required by law. AEPG is a public utility as defined in Ind. Code § 8-1-2-1(a). Under Ind. Code §§ 8-1-2-76 through 8-1-2-81, the Commission has jurisdiction over a public utility's issuance of stocks, bonds, and debt. Therefore, the Commission has jurisdiction over AEPG and the subject matter of this proceeding.

**2.** **AEPG's Characteristics.** AEPG is a corporation organized and existing under the laws of the State of Ohio, with its principal executive office at 1 Riverside Plaza, Columbus, Ohio. AEPG is authorized to conduct business in the State of Indiana. AEPG is a wholly-owned subsidiary of American Electric Power Company, Inc. ("AEP"). AEPG owns the Lawrenceburg Generating Station, has a 50% undivided ownership interest in Unit 1 of the Rockport

Generating Station located in Spencer County, Indiana ("Rockport Plant"), and has a 50% leasehold interest in Unit 2 of the Rockport Plant with its affiliate Indiana Michigan Power Company. AEPG sells all of its power from these facilities at wholesale to its utility company affiliates under long-term contracts approved by the Federal Energy Regulatory Commission. AEPG makes no retail sales of power.

**3. Relief Requested.** AEPG requests authorization to issue, during the period ending December 31, 2015, up to $150,000,000 in aggregate principal amount of promissory notes ("Notes"). AEPG requests the flexibility to decide at future dates whether there will be one or more series and the maturity of each series of the Notes. In addition, AEPG requests authority to enter into interest-rate-hedging agreements and some form of credit enhancement if AEPG determines that it is appropriate.

**4. AEPG's Evidence.**

**A. Purpose and Issuance of the Securities.** Mr. Boteler testified that the Notes will be used to refund AEPG's currently outstanding debt, to fund the construction of facilities, and for working capital. The Notes (1) will have maturities up to 60 years; (2) may be subject to optional and/or mandatory redemption, in whole or in part, at par or at various premiums above the principal amount; (3) may be entitled to mandatory or optional sinking fund provisions; (4) may provide for reset of the coupon pursuant to a remarketing arrangement; (5) may be subject to tender or the obligation of the issuer to repurchase at the election of the holder or upon the occurrence of a specified event; (6) may be called from existing investors by a third party; and (7) may be entitled to the benefit of affirmative or negative financial or other covenants. The Notes will be sold by competitive bidding, in negotiated transactions with underwriters or agents, or by direct placement with a commercial bank, institutional investor, or issued to AEP. By historical standards, the yield to maturity of such Notes should not exceed by more than 5% the yield to maturity on United States Treasury Bonds of comparable maturity at the time of pricing. Any fluctuating rate of interest on the Notes will not exceed 8% in total at the time of issuance. AEPG may agree to specific redemption provisions, including redemption premiums, at the time of pricing.

AEPG may agree to restrictive covenants, which would prohibit it from, among other things, (1) creating or permitting to exist any liens on its property, with certain stated exceptions; (2) creating indebtedness; (3) failing to maintain a specified financial condition; (4) entering into certain mergers, consolidations, or disposition of asset; and (5) permitting certain events to occur in connection with pension plans. Also, AEPG may permit the holder of the Notes to require AEPG to prepay them after certain specified events, including an ownership change.

AEPG will base its decision to issue the Notes on the basis of market conditions, principally the lowest cost and best terms available, consistent with maintaining a sound capital structure. Mr. Boteler opined that it is in the public interest to afford AEPG the necessary flexibility to adjust its financing program to developments in the markets for long-term debt securities when and as they occur in order to obtain the best reasonably available price, interest rate, and terms for its Notes.

**B. Interest Rate Management Techniques.** Mr. Boteler testified that in order to implement interest rate management techniques, AEPG requests authority to utilize interest rate hedging transactions and anticipatory interest rate hedging transactions (collectively "Interest Rate Hedges") and enter into related interest-rate-hedging agreements, including, interest rate swaps, caps, collars, floors, and options and hedging products, such as forwards, futures, or similar products, to manage and minimize interest costs. AEPG expects to enter into any such agreements with highly rated financial institutions.

AEPG will account for any premiums paid to redeem outstanding bonds through amortization of such premiums over the term of the refunding bonds, utilizing deferred tax accounting for the premium expense in order to properly match the amortization of the expense and the related tax effect. AEPG may provide some form of credit enhancement, such as a letter of credit, surety bond, or other credit enhancement, in connection with the issuance of the Notes and may pay a fee.

AEPG's Exhibit 3 shows pro forma accounting entries that reflect the proposed transactions, assuming the $150,000,000 of debt securities will be used to refund outstanding long-term and short-term debt. The interest rates used for the proposed securities are estimated, using the maximum rate in the petition, and are subject to change by the time the securities are sold.

**C. Public Interest.** Mr. Boteler testified that the terms and composition of AEPG's financing program are in the public interest. The proposed financings are reasonably necessary in the operation and management of AEPG's business in order for AEPG to provide adequate service and facilities. The capital structure of AEPG after giving effect to the proposed financing will be reasonable and in the public interest. The total amount of the proposed financings, together with AEPG's outstanding stock, Notes, and other evidences of AEPG's indebtedness, will not be excess of the fair value of AEPG's utility property.

**5. OUCC's Evidence.** Ms. Thacker testified that although AEPG's Petition stated that the proceeds from issuing debt may be used for refunding outstanding debt, based on informal discussions with AEPG, the company does not plan to refund outstanding debt at this time. However, AEPG requests the flexibility to borrow and refund debt during the financing term as market conditions permit. AEPG plans to issue secured or unsecured Notes to finance its 50% share of the Rockport Unit 1 & 2 dry sorbent injection projects, which were the subject of Cause No. 44331 ("Rockport DSI Projects"). Further, AEPG indicated that it expects to issue debt during the third or fourth quarter of 2014, but has no set timeframe for issuance. AEPG is relying on the timing of capital expenditures during the financing term.

The OUCC agrees that AEPG's proposed use of debt proceeds appears reasonable. The scope of this financing case is limited to the requested financing authority. The Rockport DSI Projects being financed have been previously reviewed and approved by the Commission. The OUCC also noted the duration of the long-term debt maturity; however, the OUCC believes that the additional length will provide flexibility to AEPG, which could ultimately benefit ratepayers. Ms. Thacker clarified that the proposed interest rate maximum for variable rate Notes is determined differently than fixed rate Notes; the 8% maximum rate of interest includes the appropriate rate and any applicable credit spread. Ms. Thacker also testified that the OUCC does not oppose AEPG's proposed interest rate maximum, and noted that the interest rate maximums provide AEPG with flexibility to adjust the financing program in response to market conditions.

The OUCC does not oppose AEPG's requested authority to enter into contractual agreements to mitigate interest rate risk associated with its proposed securities. However, the OUCC does not waive its rights in future proceedings to review AEPG's financing decisions to determine if AEPG's financing transactions were consistent with the authority granted in this Cause and were reasonable and prudent at the time they were made.

Ms. Thacker concluded that the OUCC recommends the Commission approve AEPG's requested financing program authority in this proceeding, with certain conditions, namely: that AEPG's issuances pursuant to this authority shall be at competitive, market rates; and that AEPG provide a written report to both the OUCC and Commission within 30 days of issuance of Notes that provides, at a minimum, the principal amount, a calculation of the cost rate of the issuance (including all relevant costs such as interest, issuance expenses, and any discounts or premiums), any collateral required, the term and intended purpose of the borrowing, and any other pertinent repayment terms.

**6. AEPG's Rebuttal Evidence.** Mr. Boteler testified that AEPG is agreeable to the OUCC's recommendations, and that AEPG agrees to:

(1) Its issuances be made at competitive, market rates; and

(2) Provide a written report to both the OUCC and Commission within 30 days of issuance of Notes issued pursuant to authority granted in this case, including the following: the principal amount; a calculation of the cost rate of the issuance (including all relevant costs such as interest, issuance expenses, and any discounts or premiums); any collateral required; the term and intended purpose of the borrowing; and any other pertinent repayment terms.

**7. Commission Discussion and Findings.** Pursuant to Ind. Code §§ 8-1-2-76 through 8-1-2-80, the Commission has the authority, after consideration of all information that may be relevant or required by the Commission, to investigate and approve or disapprove a proposal by a public utility to issue bonds, notes, or other evidence of indebtedness, payable more than one year from the execution thereof or preferred or common stock. The Commission must determine whether the proposed issue is in the public interest in accordance with laws touching the issuance of securities by public utilities. The Commission must also find that the proposed issue is reasonably necessary in the operation and management of the business of the utility in order that the utility may provide adequate service and facilities.

The evidence shows that AEPG will use the funds obtained through the proposed financing for construction of facilities, for working capital purposes, and possibly for refunding currently outstanding debt. Specifically, AEPG plans to issue secured or unsecured Notes to finance its 50% share of the Rockport DSI Projects, which the Commission approved in Cause No. 44331.

The proposed financing parameters will allow AEPG to finance its capital needs on a competitive basis. These terms include flexibility for AEPG to decide at future dates whether there will be one or more series and the maturity of each series of the Notes; authority for AEPG to enter into interest-rate-hedging agreements; and authority to enter into some form of credit enhancement if AEPG determines that is appropriate. The evidence shows that AEPG's proposed financing, together with AEPG's outstanding stock, Notes, and other evidences of AEPG's indebtedness will not be excess of the fair value of AEPG's utility property. Based on this evidence, we find that AEPG's proposed financing is in the public interest and is reasonably necessary in the operation and management of the business of the utility in order that the utility may provide adequate service and facilities.

The OUCC proposed, and AEPG agreed to, the following conditions: a requirement that any issuances be made at competitive, market rates, and a requirement that AEPG provide the Commission and OUCC with written reports concerning issuances. We find that the OUCC's proposals are reasonable.

Therefore, we authorize AEPG to issue secured or unsecured Notes at competitive market rates and to enter into interest-rate-hedging agreements as discussed above. We also approve AEPG's proposed method of accounting for any premiums paid in connection with any refinancing of outstanding bonds.

**IT IS THEREFORE ORDERED BY THE INDIANA UTILITY REGULATORY COMMISSION that:**

1. AEPG is authorized, during the period from the effective date of this Order through December 31, 2015, to carry out and consummate the issuance of secured or unsecured Notes up to an aggregate principal amount of $150,000,000 on terms described above, including entering and executing appropriate transaction documents and evidences of indebtedness to effectuate the issuance of the Notes.

2. AEPG is authorized to:

   a. decide at future dates whether there will be one or more series and the maturity of each series of the Notes;

   b. enter into interest-rate-hedging agreements in connection with the securities;

   c. provide some form of credit enhancement, such as a letter of credit, surety bond, or other insurance, if appropriate;

   d. use the proceeds of the Notes for the purposes set forth in its Petition and testimony, as well as to account for premiums paid in connection with the redemption or reacquisition of outstanding debt and any interest-rate hedges or credit enhancements as described above; and

e. issue the Notes at competitive, market rates.

3. The authority granted to AEPG by this Order shall expire on December 31, 2015, to the extent it has not been utilized by that date. This Order is the sole evidence of our approval and shall constitute a certificate of authority granted to AEPG as provided in Ind. Code § 8-1-2-80.

4. AEPG shall file with the Commission under this Cause and serve on the OUCC a written report on each occasion when it exercises its authority to issue Notes authorized by this Order. The report shall summarize the type and terms of the financing, including the principal amount; a calculation of the cost rate of the issuance with the interest, issuance expenses, and any discounts or premiums; any collateral required; the purpose of the borrowing; and any other pertinent repayment terms.

5. This Order shall be effective on and after the date of its approval.

**STEPHAN, ZIEGNER, AND MAYS CONCUR; WEBER NOT PARTICIPATING:**

**APPROVED:** JUL 30 2014

**I hereby certify that the above is a true and correct copy of the Order as approved.**

Shala M. Coe

**Shala M. Coe**
**Acting Secretary to the Commission**