

ORIGINAL

STATE OF INDIANA

INDIANA UTILITY REGULATORY COMMISSION

IN THE MATTER OF THE PETITION OF AEP )  
INDIANA MICHIGAN TRANSMISSION )  
COMPANY, INC. FOR ALL NECESSARY ) CAUSE NO. 44483  
AUTHORITY IN CONNECTION WITH A )  
\$180,000,000 FINANCING PROGRAM )  
INVOLVING THE ISSUANCE OF SECURED ) APPROVED:  
OR UNSECURED PROMISSORY NOTES OF ) AUG 27 2014  
ONE OR MORE NEW SERIES. )

ORDER OF THE COMMISSION

**Presiding Officers:**  
**Carol A. Stephan, Commission Chair**  
**David E. Veleta, Administrative Law Judge**

On April 17, 2014, AEP Indiana Michigan Transmission Company, Inc. (“IM Transco”) filed its Petition with the Indiana Utility Regulatory Commission (“Commission”) initiating this Cause. On May 12, 2014, IM Transco filed its case-in-chief testimony and exhibits. On June 23, 2014, the Indiana Office of Utility Counselor (“OUCC”) filed its testimony, and on July 2, 2014 IM Transco filed its rebuttal testimony.

The Commission held an Evidentiary Hearing in this Cause on July 22, 2014, at 9:30 a.m. in Room 224 of the PNC Center, 101 West Washington Street, Indianapolis, Indiana. IM Transco and the OUCC both appeared and participated, by their respective counsel. No members of the general public appeared or sought to testify at the hearing.

Based upon the applicable law and the evidence herein, the Commission now finds:

**1. Notice and Jurisdiction.** Notice of the hearing was published as required by law. IM Transco is a public utility as defined in Indiana Code § 8-1-2-1(a). Under Indiana 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 IM Transco and the subject matter of this proceeding.

**2. IM Transco’s Characteristics.** IM Transco is a corporation organized and existing under the laws of the State of Indiana, having its principal executive office at 1 Riverside Plaza, Columbus, Ohio and an office at One Summit Square, P.O. Box 60, Fort Wayne, Indiana 46801. IM Transco received Commission authorization to operate as a transmission public utility in Cause No. 44000 and began actively operating as a public utility immediately thereafter. IM Transco owns electric utility properties in Indiana and southwestern Michigan. IM Transco is a wholly-owned subsidiary of American Electric Power Transmission Company, LLC (“AEP Transmission”), which is a wholly owned subsidiary of AEP Transmission Holding Company, LLC (“AEP Holdco”). American Electric Power Company,

Inc. ("AEP") is the parent company of AEP Holdco. IM Transco was formed to engage in providing electric transmission service within the States of Indiana and Michigan. IM Transco will develop, own and operate certain new transmission facilities interconnected to existing facilities owned by Indiana Michigan Power Company ("I&M"), AEP Transmission, other AEP operating companies and other unaffiliated companies within the PJM footprint.

**3. Relief Requested.** IM Transco requests authority to issue, during the period ending December 31, 2015, up to \$180,000,000 in secured or unsecured notes of one or more new series.

**4. IM Transco's Direct Testimony.** Mr. Jerald R. Boteler, Jr., Managing Director of Corporate Finance for AEP Service Corporation, testified that the securities to be issued under this financing program will be used together with other available funds to finance transmission capital expenditures to repay short-term borrowings (through IM Transco's participation in the AEP system utility money pool) to meet working capital needs (including construction expenditures), and for other general corporate purposes of the IM Transco.

Mr. Boteler testified that as a participant in the money pool, IM Transco has incurred short-term indebtedness. As of May 1, 2014, IM Transco's outstanding short-term money pool borrowings totaled \$4,739,324.09, and that he anticipates that proceeds from a long-term debt issuance would be used, in part, to pay down IM Transco's outstanding balance in the money pool. Mr. Boteler noted that any such repurchases or redemption program will be financed through the issuance of new debt or with cash sourced from IM Transco's operations.

Notes may be issued in the form of senior or subordinated notes or other types of promissory notes, including notes sold to IM Transco's parent AEP, AEP Transmission, or AEP Holdco. In the case of long-term borrowing from a parent, Mr. Boteler stated that the interest rates and maturity dates will be designed to parallel the cost of debt of such parent. The notes: (a) will have maturities up to 60 years, (b) may be subject to optional and/or mandatory redemption, in whole or in part, at par or at various premiums above the principal amount thereof, (c) may be entitled to mandatory or optional sinking fund provisions, (d) may provide for reset of the coupon pursuant to a remarketing arrangement, (e) 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, (f) may be called from existing investors by a third party, and (g) may be entitled to the benefit of affirmative or negative financial or other covenants. The interest rates of the notes may be fixed or variable and will be sold: (i) by competitive bidding, (ii) in negotiated transactions with underwriters or agents, or (iii) by direct placement with a commercial bank or other institutional investor.

Mr. Boteler testified that the notes issued by IM Transco will be sold at the lowest interest rates reasonably obtainable. By historical standards, the yield to maturity of such notes should not exceed by more than 5.0% the yield to maturity on United States treasury bonds of comparable maturity at the time of pricing. If IM Transco agrees to a fluctuating rate of interest on the notes, it will not exceed 8% in total at the time of issuance. Mr. Boteler stated that IM Transco may agree to specific redemption provisions including redemption premiums at the time of pricing.

According to Mr. Boteler, IM Transco may agree to restrictive covenants which would prohibit it from, among other things: (i) creating or permitting to exist any liens on its property, with certain stated exceptions, (ii) creating indebtedness except as specified therein, (iii) failing to maintain a specified financial condition, (iv) entering into certain mergers, consolidations, and disposition of assets, and (v) permitting certain events as to occur in connection with pension plans. Also, IM Transco may permit the holder of the notes to require IM Transco to prepay them after certain specified events, including an ownership change.

Mr. Boteler testified that IM Transco will base its decision to issue the notes on the basis of market conditions, principally the lowest cost and best terms available, and consistent with maintaining a sound capital structure. According to Mr. Boteler, it is in the public interest to afford IM Transco 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. Therefore, Mr. Boteler stated that IM Transco was requesting the Commission grant IM Transco the flexibility to decide at future dates whether there will be one or more unsecured or secured series and on the maturity of each series of the notes. Any specific redemption provisions will be determined at the time of the pricing of each series of notes. Mr. Boteler stated that IM Transco, in order to reduce and manage interest costs with respect to the notes, also 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, but not limited to interest rate swaps, caps, collars, floors, options, or hedging products such as forwards or futures or similar products, the purpose of which is to manage and minimize interest costs. He explained that it expects to enter into any such agreements with counterparties that are highly rated financial institutions.

Mr. Boteler testified that IM Transco may provide some form of credit enhancement such as a letter of credit, surety bond, or other insurance. He stated that IM Transco requests authority to enter into such credit enhancement if IM Transco determines that it is appropriate.

Mr. Boteler described the manner in which he anticipated that this financing would proceed. He stated that the intention is to have AEP Transmission issue long-term debt according to the parameters described in IM Transco's Petition. AEP Transmission will then lend a portion of the proceeds through an inter-company loan to IM Transco. He noted that the use of inter-company loans is the type of financing that AEP has utilized for many of its operating subsidiaries including I&M. He said that he anticipated that IM Transco would borrow \$55 million in 2014. IM Transco anticipates an additional \$85 million of long-term debt financing needs in 2015. He stated that IM Transco will not be directly issuing debt to investors because, during the financing period, IM Transco will simply not have enough assets in service or operational history to support reasonable financing terms and conditions. By having AEP Transmission issue the securities and then make inter-company loans to IM Transco, he expected that more reasonable terms and conditions, including pricing, would be obtained. He said that the terms and conditions of the inter-company loan will mirror the terms and conditions, including pricing, obtained by AEP Transmission. He said that he did not anticipate IM Transco to always obtain its long-term debt by way of inter-company loans. Once IM Transco has a

sufficient level of assets that have been established and are in service, he expects IM Transco to enter the capital market on its own footing. He also noted that the target capital structure for IM Transco is 50% debt and 50% equity and that the long-term debt issues anticipated during the financing period are expected to result in a capital structure for IM Transco in line with its stated target.

Mr. Boteler testified that the terms and composition of IM Transco's financing program are in the public interest. Mr. Boteler stated that the proposed financings are reasonably necessary in the operation and management of IM Transco's business in order that IM Transco may provide adequate service and facilities. The capital structure of IM Transco, after giving effect to the proposed financings, will be reasonable and in the public interest, and conform to the terms agreed to by IM Transco, other AEP Transmission subsidiary companies, and various intervening parties, in the Federal Energy Regulatory Commission ("FERC") settlement under Docket No. 10-355-000. Per the FERC settlement agreement, once IM Transco has issued its own long-term debt, its capital structure for ratemaking purposes will be based on its actual capital structure, and limited to a maximum equity ratio of 50 percent. Given this capital structure target, the IM Transco expects a two to one ratio for IM Transco's assets versus its long-term debt. In other words, the \$180 million long-term debt authorization that the IM Transco is seeking in this proceeding will be used to finance approximately \$360 million of operating assets. Therefore, the total amount of the proposed financings, together with IM Transco's outstanding stock, notes maturing more than 12 months from the date thereof, and other evidences of IM Transco's indebtedness will not be in excess of the fair value of IM Transco's utility property.

Ms. Teresa A. Gallup, the Manager, Transmission Asset Strategy for the AEP Service Corporation, provided an overview of IM Transco's operations. She stated that IM Transco was formed by AEP to make certain transmission-only investments in Indiana and Michigan without being limited to the funding levels available to Indiana Michigan Power Co. She said that upon Commission approval of the Settlement Agreement in Cause No. 44000, IM Transco began actively operating as a public utility in Indiana. She noted that IM Transco develops transmission projects pursuant to the AEP Transmission Company's Project Selection Guideline ("PSG") criteria for inclusion in IM Transco.

Ms. Gallup noted that IM Transco has placed approximately \$122 million of transmission assets into service in the State of Indiana as of the end of 2013. Additionally, IM Transco placed \$82 million of transmission assets into service in the State of Michigan through the end of 2013.

Ms. Gallup noted IM Transco Budget for 2014 and 2015. She explained that in 2014, IM Transco is projecting to spend approximately \$178 million on new transmission projects within Indiana. IM Transco is projecting to spend approximately \$166 million on new transmission projects within Indiana in 2015. IM Transco also is projecting to spend a total of approximately \$20 million on new transmission projects within Michigan during 2014 and 2015. Additional information about IM Transco's construction program is provided annually in the I&M Transco Investment, Operations, and Benefits Report (the "Report"), pursuant to Section 2 of the Settlement Agreement dated July 18, 2011 in Cause No. 44000. The Report is required to be

filed by July 1 of each year and addresses projects based on data for the previous calendar year. The Report was filed accordingly in 2012 and 2013.<sup>1</sup>

Ms. Gallup testified that IM Transco expects to put new transmission assets into service in 2014. Specifically, IM Transco expects the total additions to transmission plant in service are projected to be \$13.5 million in 2014. Some of the larger projects and their estimated total capital cost are: Fort Wayne area improvements, consisting of the purchase of a spare 345/138 kV – 450 MV transformer, \$3.5 million and upgrades to equipment at the Tillman Substation, \$1.5 million; construction of the Capital Avenue 69 kV double circuit line extension in St. Joseph County, \$2.5 million; and replacement and upgrade of switch equipment at the Buena Vista Tap Switching Station in Randolph County, \$1 million.

Ms. Gallup concluded her testimony by opining that she expects all of the 2014 and 2015 capital projects to be used and useful in providing electric service to Indiana customers.

**5. The OUCC's Evidence.** Crystal L. Thacker, a Utility Analyst in the OUCC Electric Division, clarified some inconsistencies in the IM Transco's evidence. Ms. Thacker first noted that in IM Transco's testimony, Mr. Boteler stated that this was IM Transco's first financing case, however in the Petition, IM Transco noted that it was authorized to issue debt in Cause No. 44175. Through informal discussions, IM Transco clarified that the Petition is correct. Second point of clarification, the Petition states that IM Transco had \$107,450,000 of long-term debt securities outstanding as of March 1, 2014, however, in Mr. Boteler's testimony IM Transco states that IM Transco currently has no long-term debt. Through informal discussions, IM Transco clarified that the Petition's stated \$107,450,000 of unsecured notes is correct.

Ms. Thacker noted that the OUCC does not object to IM Transco's proposed use of the debt proceeds. She noted that the scope of this financing case is limited to the requested financing authority. The OUCC reserves its right to review and challenge the details of specific construction projects and their costs in appropriate proceedings.

Ms. Thacker discussed the interest rates expectations and maximums as detailed in Mr. Boteler's direct testimony. She also 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. She said that the OUCC does not oppose the projected maximums since such maximums provide IM Transco with the flexibility to adjust its financing program to market conditions.

Ms. Thacker noted that IM Transco requests authority to enter into contractual agreements to mitigate interest rate risk associated with its proposed securities, and that the OUCC does not oppose such transactions, but would emphasize the need for IM Transco to prudently exercise such authority when transactions are executed. Further, Ms. Thacker testified that the OUCC does not waive its rights in future proceedings to review IM Transco's financing decisions to determine if IM Transco's financing transactions were consistent with the authority granted in this Cause and were reasonable and prudent at the time they were made.

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<sup>1</sup> The Company also filed an additional Report on July 1, 2014.

Ms. Thacker noted that IM Transco requests the financing authority be granted through December 31, 2015, which is shorter than the more typical 24 months, yet, the OUCC has no objection to the shortened timeframe.

Ms. Thacker concluded that the OUCC recommends the Commission approve IM Transco's requested Financing Program authority in this proceeding, including the following financing program conditions proposed by the OUCC: IM Transco's issuances pursuant to this authority shall be at competitive, market rates, and IM Transco shall provide a written report to both the OUCC and the Commission within thirty 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, term and intended purpose of the borrowing, and any other pertinent repayment terms.

**6. IM Transco's Rebuttal Testimony.** Mr. Boteler provided brief rebuttal to the OUCC's testimony. First, Mr. Boteler noted that the OUCC is correct that IM Transco had outstanding long-term indebtedness of \$107,450,000 as of March 1, 2014. The source of this outstanding debt was IM Transco's ultimate parent, American Electric Power Corp., not an outside third party, which is why IM Transco's Direct Testimony stated that IM Transco had no outstanding long-term debt. However, Ms. Thacker's description is correct and more precise.

Second, Mr. Boteler noted that IM Transco is agreeable to the OUCC's recommendations.

**7. Commission Discussion and Findings.** Pursuant to Indiana 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.

Based on the evidence presented, the Commission finds IM Transco's request to use the funds obtained through the proposed financing to finance transmission capital expenditures, to repay short-term borrowings (through IM Transco's participation in the AEP system utility money pool), to meet working capital needs (including construction expenditures), and for other general corporate purposes of the IM Transco is reasonable, supported by sufficient evidence, and in the public interest.

Furthermore, the evidence also shows that IM Transco's proposed financing, together with IM Transco's outstanding stock, notes maturing more than 12 months from the date thereof, and other evidences of IM Transco's indebtedness, will not be in excess of the fair value of IM Transco's utility property. The evidence also shows that IM Transco's proposed parameters for the financing are reasonable and should be approved, as they will allow IM Transco to finance its

capital needs on a competitive basis. These terms include flexibility for IM Transco to decide at future dates whether there will be one or more series and on the maturity of each series of the notes; authority for IM Transco to enter into interest rate hedging agreements; and authority to enter into some form of credit enhancement if IM Transco determines that is appropriate. Based on this evidence, as well as evidence concerning the use to which the financing funds will be put, we find that the proposed financing is reasonable and is granted.

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

Therefore, we authorize IM Transco to issue secured or unsecured notes at competitive market rates and to enter into interest-rate-hedging agreements as discussed above.

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

1. IM Transco is authorized, during the period from the effective date of this Order through December 31, 2015, to carry out and consummate the issuance of unsecured or secured notes up to an aggregate principal amount of \$180,000,000 on terms described above, including entering and executing appropriate transaction documents and evidences of indebtedness to effectuate the issuance of the notes.

2. IM Transco 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 herein authorized for the purposes set forth in its petition and testimony, as well as to account for premiums and fees paid in connection with the redemption or reacquisition of the 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 IM Transco 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 IM Transco as provided in Indiana Code § 8-1-2-80.

4. IM Transco shall file with the Commission under this Cause and serve on the OUCC a written report within thirty (30) days 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 (including 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, MAYS-MEDLEY AND ZIEGNER CONCUR; WEBER NOT PARTICIPATING:**

**APPROVED: AUG 27 2014**

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

  
**Brenda A. Howe**  
**Secretary to the Commission**