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AMEP/Z-94511

October 18, 2017

VIA EMAIL (Sharla.Dillon@tn.gov) & FEDEX

Mr. David Jones, Chairman
c/o Sharla Dillon, Dockets & Records Manager
Tennessee Public Utility Commission
502 Deaderick Street, 4th Floor
Nashville, TN 37243

Re: PETITION OF APPALACHIAN
POWER COMPANY FOR AUTHORITY
FOR FINANCING PROGRAM THROUGH
– DECEMBER 31, 2019
Docket No. 17-00107

Dear Chairman Jones:

On behalf of Appalachian Power Company, we transmit herewith the following:

Direct, Pre-filed Testimony of Renee V. Hawkins in support of the Appalachian Power
Financing Petition.

The original and four (4) copies are being sent via Federal Express.

We understand this is set for the Conference on October 23, 2017.

Very sincerely yours,

HUNTER, SMITH & DAVIS, LLP

William C. Bovender

Enclosure: As stated

cc: Kelly Grams, General Counsel (w/enc.)
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Mr. David Jones, Chairman

Page 2

October 18, 2017

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**DIRECT TESTIMONY OF
RENEE V. HAWKINS
ON BEHALF OF APPALACHIAN POWER COMPANY
BEFORE THE TENNESSEE REGULATORY AUTHORITY
DOCKET NO. 17-00107**

Q. PLEASE STATE YOUR NAME, POSITION AND ADDRESS.

A. My name is Renee V. Hawkins. My business address is 1 Riverside Plaza, Columbus, Ohio 43215. I am employed by the American Electric Power Service Corporation (AEPSC) as a Managing Director, Corporate Finance. In this capacity, I oversee the raising of capital for Appalachian Power and other American Electric Power Company, Inc. (AEP) utilities. AEPSC supplies engineering, financing, accounting, and planning and advisory services to the subsidiaries of the American Electric Power (AEP) System, one of which is Appalchian Power Company (APCo) or the Company.

Q. TELL US BRIEFLY ABOUT YOUR BACKGROUND.

A. I earned a Bachelor of Science in Business Administration in Finance and International Business from the Ohio State University in 1987. I earned a Master of Business Administration from the Simon School at the University of Rochester in 1991. I was first employed by State Teachers Retirement System of Ohio in 1987 in the Real Estate section where I was assigned to asset management. In June 1991, I was employed by General Motors as an analyst for AC Delco, which is now a subsidiary of Delphi East. This rotational program included positions in cost accounting, division finance, and capital planning. In June 1993, I was hired by Cablevision Systems.

In 1996, I joined AEPSC as a Corporate Finance Senior Analyst supporting financing activity for the AEP System operating companies. In 1999, I was named

1 Manager - Corporate Finance of AEPSC. In June 2000, I was named Director –
2 Corporate Finance of the Service Corporation, a position that was renamed Director –
3 Regulated Finance in 2001. In that capacity, I was responsible for capital markets activity
4 for all of the regulated utilities, establishing dividend recommendations and capitalization
5 targets, supporting the rating agency relationships to maintain credit ratings and assisting
6 in the management of liquidity for AEP and its subsidiaries. I was promoted to Managing
7 Director, Corporate Finance in 2003. In January 2008, my responsibilities expanded to
8 include Assistant Treasurer of AEP and its operating companies.

9 **Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?**

10 A. The purpose of my testimony is to support the proposed long-term debt financing
11 application of the Company, which, if approved by the Commission, will allow the
12 Company to issue unsecured long-term debt up to the aggregate principal amount of
13 \$625,000,000 from time to time through December 31, 2019.

14 **Q. FOR WHAT PURPOSES WILL THE COMPANY BE ISSUING THESE**
15 **SECURITIES?**

16 A. The securities may be used for construction costs, to repay short-term debt, to fund long-
17 term debt maturities and to fund working capital. APCo's short term debt is funded
18 through the AEP Utility Money Pool.

19 **Q. PLEASE FURTHER DESCRIBE THE UNSECURED LONG-TERM DEBT THAT**
20 **MAY BE ISSUED.**

21 A. Appalachian Power proposes to issue and sell from time to time senior unsecured notes
22 (the "Notes"). The Notes may be issued in the form of Senior Notes, Senior or

1 Subordinated Debentures, First Mortgage Bonds, Bank Credit Revolver or Loans or other
2 unsecured promissory notes.

3 The Notes will mature in not less than nine months and not more than 60 years.

4 The interest rate of the Notes may be fixed or variable and will be sold (i) by competitive
5 bidding; (ii) through negotiation with underwriters or agents; or (iii) by direct placement
6 with a commercial bank or other institutional investor. Any fixed rate Note will be sold
7 by Appalachian Power at a yield to maturity which shall be determined by financial
8 market conditions at the time of pricing. The initial interest rate on any variable rate Note
9 will be determined by financial market conditions at the time of pricing. Appalachian
10 Power will agree to specific redemption provisions, if any, including redemption
11 premiums, at the time of the pricing. If it is deemed advisable, the Notes may be
12 provided some form of credit enhancement, including but not limited to a letter of credit,
13 bond insurance, standby purchase agreement or surety bond.

14 **Q. PLEASE DESCRIBE HOW NOTES WOULD BE ISSUED TO THIRD PARTIES?**

15 A. Notes will be issued pursuant to the existing Indenture in registered public offerings or
16 pursuant to a purchase agreement in a private placement. A definitive notes purchase
17 agreement would be entered between APCo and a bank or qualified investors. The terms
18 of the Notes would include fixed or variable interest rates, term, financial covenants and
19 any redemption provisions. The actual interest rate and maturity would be subject to
20 negotiation between APCo and the underwriters or the lenders. To the extent the notes
21 are fixed rate, they cannot be at a rate higher than 300 basis points (3%) above the
22 comparable US Treasury yield-to-maturity.

1 **Q. PLEASE DESCRIBE HOW PRICING WILL BE DETERMINED FOR THE**
2 **PROPOSED LONG-TERM DEBT?**

3 A. Pricing on the proposed long-term debt will be specific to the structure and type of
4 security. Assuming a Senior Notes issuance, interest rates will be composed of a
5 comparable benchmark yield in addition to the Company's applicable credit spread at the
6 time of issuance. The applicable credit spread is a reflection of the Company's overall
7 creditworthiness and credit rating. APCo is currently rated Baa1 and A- by Moody's and
8 Standard and Poor's, respectively, and both of these ratings are considered investment
9 grade. Standard and Poor's upgraded APCo to A- in February 2017.

10 **Q. IN CONNECTION WITH THE SALE OF ANY UNSECURED NOTES, WILL**
11 **APCO AGREE TO ANY RESTRICTIVE COVENANTS?**

12 A. Yes. The Company may agree to restrictive covenants which would prohibit it from,
13 among other things: (i) creating or allowing to exist any liens on its property, with certain
14 stated exceptions; (ii) creating indebtedness except as specified therein; (iii) failing to
15 maintain a specified financial condition; (iv) entering into certain mergers, consolidations
16 and dispositions of asset; and (v) permitting certain event as to occur in connection with
17 pension plans. Also, APCo may permit the holder of the Notes to require APCo to
18 prepay them after certain specified events, including an ownership change.

19 **Q. DOES THIS CONCLUDE YOUR TESTIMONY?**

20 A. Yes, it does.