

**BEFORE THE TENNESSEE PUBLIC UTILITY COMMISSION**

**NASHVILLE, TENNESSEE**

**December 12, 2017**

<b>IN RE:</b>	)	
	)	
<b>PETITION OF APPALACHIAN POWER</b>	)	<b>DOCKET NO. 17-00107</b>
<b>COMPANY FOR AUTHORITY FOR FINANCING</b>	)	
<b>PROGRAM THROUGH DECEMBER 31, 2019</b>	)	

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**ORDER APPROVING FINANCING ARRANGEMENT**

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This matter came before Chairman David F. Jones, Vice Chairman Robin L. Morrison and Commissioner Herbert H. Hilliard of the Tennessee Public Utility Commission (the “Commission” or “TPUC”), the voting panel assigned to this docket, during the regularly scheduled Commission Conference held on October 23, 2017, for hearing and consideration of the *Petition* seeking authority for financing programs through December 31, 2019 filed on September 19, 2017 by Appalachian Power Company (“Appalachian” or the “Company”).

**BACKGROUND AND PETITION**

On September 19, 2017, Appalachian filed a *Petition* with the Commission requesting approval of its proposed financing programs through December 31, 2019.<sup>1</sup> Appalachian provides power to Kingsport Power Company (“Kingsport”). Both Appalachian and Kingsport are wholly-owned subsidiaries of American Electric Power Company, Inc. (“AEP”), a publicly-traded holding company. Appalachian and Kingsport are separate legal entities that finance their operations separately. Kingsport purchases all of its power requirements from Appalachian at

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<sup>1</sup> *Petition* (September 19, 2017).

wholesale rates under a Federal Energy Regulatory Commission (“FERC”) approved tariff and receives some services from Appalachian at cost.

In its *Petition*, Appalachian proposes to issue and sell, from time to time from January 1, 2018 through December 31, 2019, secured or unsecured promissory notes (“Notes”) in an aggregate principal amount up to \$700 million.<sup>2</sup> Appalachian indicates that the Notes will mature in not less than nine months and not more than 60 years with interest rates that may be fixed or variable. Appalachian also indicates that it may enter into, from time to time through December 31, 2019, one or more interest rate hedging arrangements, including but not limited to, treasury lock agreements, forward-starting interest rate swaps, treasury put options or interest rate collar agreements to protect against future interest rate movements in connection with the issuance of Notes.<sup>3</sup>

Further, Appalachian also requests to continue its Interest Rate Management Agreements as approved in Docket No. 16-00014<sup>4</sup> through December 31, 2019.<sup>5</sup> The *Petition* states that such authority would allow Appalachian sufficient alternatives and flexibility when striving to reduce its effective interest costs and manage interest cost on financing transactions. The Interest Rate Management Agreements will be products commonly used in today’s capital markets with the purpose of managing and minimizing interest costs. The agreement will be for a fixed period and for a stated principal amount, and shall be for underlying fixed or variable obligation of Appalachian. The aggregate notional amount of all Interest Rate Management Agreements shall not exceed 25% of Appalachian’s existing debt obligations, including pollution control revenue bonds. Proceeds from the sale of the Notes will be used to redeem directly or indirectly long-

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<sup>2</sup> *Id.* at 2.

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

<sup>4</sup> *In re: Application of Appalachian Power Company for Approval of Certain 2016-2017 Financing Programs*, Docket No. 16-00014, *Order Approving Financing Programs* (March 28, 2016).

<sup>5</sup> *Petition*, pp. 4-5 (September 19, 2017).

term debt, to repay short-term debt at or prior to maturity, to reimburse Appalachian's treasury for expenditure associated with its construction program and for other corporate purposes.<sup>6</sup>

Along with its *Petition*, Appalachian filed pre-filed testimony of Corporate Finance Managing Director, Renee V. Hawkins, as well as the amended pre-filed testimony of Ms. Hawkins. In her amended pre-filed testimony, Ms. Hawkins testified, "[t]he securities may be used for construction costs, to repay short-term debt, to fund long-term debt maturities and to fund working capital."<sup>7</sup> Ms. Hawkins' testimony also included a description of the unsecured long-term debt to be issued and the process for issuing notes to third parties.<sup>8</sup> No party requested to intervene in this case.

#### **STANDARD FOR COMMISSION APPROVAL**

Commission approval is required for these financing programs pursuant to Tenn. Code Ann. § 65-4-109, which provides:

No public utility shall issue any stocks, stock certificates, bonds, debentures, or other evidences of indebtedness payable in more than one (1) year from the date thereof, until it shall have first obtained authority from the commission for such proposed issue. It shall be the duty of the commission after hearing to approve any such proposed issue maturing more than one (1) year from the date thereof upon being satisfied that the proposed issue, sale and delivery is to be made in accordance with law and the purpose of such be approved by the commission.

#### **THE OCTOBER 23, 2017 HEARING**

A Hearing in this matter was held before the voting panel of Commissioners during the regularly scheduled Commission Conference on October 23, 2017, as noticed by the Commission on October 13, 2017. Participating in the Hearing were:

Appalachian Power Company – Bill Bovender, Hunter, Smith & Davis, LLP, 1212 N. Eastman Rd., P.O. Box 3740, Kingsport, TN 37664; and, Renee

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<sup>6</sup> *Id.*

<sup>7</sup> Renee V. Hawkins, *Amended Pre-Filed Direct Testimony*, p. 2 (November 18, 2017).

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

Hawkins, Director of Corporate Finance, Appalachian Power Company, One Riverside Plaza, Columbus, Ohio 43215.

During the Hearing, Ms. Hawkins ratified, then summarized her pre-filed testimony and was subject to questioning before the panel and by TPUC staff. Members of the public were given an opportunity to offer comments, at which time no comments were submitted.

### **FINDINGS AND CONCLUSIONS**

The Commission's review of financing programs or transactions focuses on whether such financing programs or transactions are in accordance with applicable law and their purpose is in the public interest. The potential use of funds described in the *Petition*, including redemption of long-term debt, repayment of short-term debt at or prior to maturity, expenses related to construction programs, and other corporate purposes, are typical business activities and consistent with previous financing transactions approved by the Commission. Accordingly, approval of these financing programs is in the public interest.

At the Commission Conference held on October 23, 2017, the panel voted unanimously to approve the *Petition* and made the following findings:

1. The proposed financing programs are subject to Commission approval pursuant to Tenn. Code Ann. § 65-4-109.
2. The proposed financing programs are being made in accordance with laws enforceable by this agency.
3. The proposed financing programs are in the public interest as they will provide Appalachian Power Company flexibility to manage interest costs on financing.

### **IT IS THEREFORE ORDERED THAT:**

1. The *Petition* filed by Appalachian Power Company on September 19, 2017 is approved.

2. Appalachian Power Company is authorized to enter into the proposed financing programs as described in the *Petition* and discussed herein.

3. The authorization and approval of these financing programs given hereby shall not be used by any party for the purpose of inferring an analysis or assessment of the risks involved, and this decision is not intended to create any liability on the part of the Tennessee Public Utility Commission, the State of Tennessee or any political subdivision thereof.

4. Any person who is aggrieved by the Commission's decision in this matter may file a Petition for Reconsideration with the Commission within fifteen days from the date of this Order.

5. Any person who is aggrieved by the Commission's decision in this matter has the right to judicial review by filing a Petition for Review in the Tennessee Court of Appeals, Middle Section, within sixty days from the date of this Order.

**Chairman David F. Jones, Vice Chairman Robin L. Morrison and Commissioner Herbert H. Hilliard concur.**

**ATTEST:**



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**Earl R. Taylor, Executive Director**