

BEFORE THE TENNESSEE PUBLIC UTILITY COMMISSION

NASHVILLE, TENNESSEE

January 8, 2019

IN RE:	)	
	)	
PETITION OF APPALACHIAN POWER	)	DOCKET NO. 19-00102
COMPANY FOR AUTHORITY FOR FINANCING	)	
PROGRAM THROUGH DECEMBER 31, 2021	)	

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ORDER APPROVING FINANCING ARRANGEMENT

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This matter came before Commissioner Herbert H. Hilliard, Commissioner John Hie, and Commissioner David F. Jones 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 December 9, 2019, for hearing and consideration of the *Petition* seeking authority for financing programs through December 31, 2021 filed on October 30, 2019 by Appalachian Power Company (“Appalachian” or the “Company”).

**BACKGROUND AND PETITION**

On October 30, 2019, Appalachian filed a *Petition* with the Commission requesting approval of its proposed financing programs through December 31, 2021.<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* (October 30, 2019).

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, 2020 through December 31, 2021, secured or unsecured promissory notes (“Notes”) in an aggregate principal amount up to \$1.3 billion.<sup>2</sup> Appalachian indicates that the Notes will mature in not less than nine months and not more than sixty 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, 2021, 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 the 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, 2021.<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

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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*, p. 4 (October 30, 2019).

bonds. Proceeds from the sale of the Notes will be used to redeem directly or indirectly long-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,<sup>7</sup> as well as the Pre-Filed Amended Testimony of Ms. Hawkins.<sup>8</sup> In her Pre-Filed Testimony, Ms. Hawkins testified, "the securities may be used for construction costs, to repay short-term debt, to fund long-term debt maturities and to fund working capital."<sup>9</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>10</sup> No party requested to intervene in this case.

The Company also provides utility service in the State of Virginia, which requires that financing programs such as the one proposed by Appalachian in the present docket be approved by the Virginia State Corporation Commission ("VSCC").<sup>11</sup> Subsequent to the Hearing on Appalachian's Tennessee *Petition*, the VSCC entered an order approving the financing program at issue in this docket on December 12, 2019, a copy of which was filed with the TPUC.<sup>12</sup>

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

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

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<sup>6</sup> *Id.* at 6-7.; *see also* Exh. C, Renee V. Hawkins, Pre-Filed Direct Testimony, p.2

<sup>7</sup> *Id.* at Exh. C.

<sup>8</sup> Renee V. Hawkins, Pre-Filed Amended Direct Testimony (October 30, 2019).

<sup>9</sup> *Petition*, p. 2 (October 30, 2019).

<sup>10</sup> *Id.* at 2-4.

<sup>11</sup> *See* Va. Code Ann. 56-55 (West 2019).

<sup>12</sup> *Order Granting Approval of the Financing plan of Appalachian Power Company Through December 31, 2021, Issued By the Virginia State Corporation Commission* (December 19, 2019); *see also, Application of Appalachian Power Company, For authority under Chapter 3 of Title 56 of the Code of Virginia*, VSCC Case No. PUR-2019-00177, *Order Granting Approval*, (December 12, 2019).

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 DECEMBER 9, 2019 HEARING**

A Hearing in this matter was held before the voting panel of Commissioners during the regularly scheduled Commission Conference on December 9, 2019, as noticed by the Commission on November 27, 2019. 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 Hawkins,<sup>13</sup> Managing 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.

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<sup>13</sup> Ms. Hawkins appeared and provided testimony telephonically pursuant to the *Order Granting Electronic Participation in Hearing*, entered by the Hearing Officer on October 19, 2019 in response to the *Motion for Leave to Appear as Witness By Telephone* filed by Appalachian on October 17, 2019.

At the Commission Conference held on December 9, 2019, 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 October 30, 2019 is approved, contingent upon approval of the similar *Petition* filed by Appalachian Power Company before the Virginia State Corporation Commission.<sup>14</sup>

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.

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<sup>14</sup> The VSCC approved the similar *Petition* before it subsequent to the Hearing on the Company's Tennessee *Petition*. See Footnote 12 *supra*.

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.

**Commissioner Herbert H. Hilliard, Commissioner John Hie and Commissioner David F. Jones concur.**

**ATTEST:**



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**Earl R. Taylor, Executive Director**