BEFORE THE

LOUISIANA PUBLIC SERVICE COMMISSION

APPLICATION OF SOUTHWESTERN ELECTRIC POWER COMPANY FOR CERTIFICATION AND APPROVAL OF THE ACQUISITION OF CERTAIN RENEWABLE RESOURCES AND NATURAL GAS CAPACITY CONTRACTS IN ACCORDANCE WITH THE MBM ORDER, THE 1983 AND 1994 GENERAL ORDERS	:	DOCKET NO. U-

DIRECT TESTIMONY OF

NOAH K. HOLLIS

FOR

SOUTHWESTERN ELECTRIC POWER COMPANY

MAY 2022

TESTIMONY INDEX

EXHIBITS

EXHIBIT	DESCRIPTION
CONFIDENTIAL EXHIBIT NKH-1	Moody's Credit Opinion Southwestern Electric Power Company – October 2021
CONFIDENTIAL EXHIBIT NKH-2	Moody's - Rate Basing Wind Generation adds Momentum to Renewables
CONFIDENTIAL EXHIBIT NKH-3	Moody's - Approval of Public Service New Mexico's Renewable investment is credit positive; rate case order still pending

GLOSSARY OF ACRONYMS

AEP	American Electric Power Company, Inc.
AEPSC	American Electric Power Service Corporation
SWEPCO	Southwestern Electric Power Company

I. INTRODUCTION

Q. PLEASE STATE YOUR NAME, BUSINESS ADDRESS, AND BUSINESS POSITION.

A. My name is Noah K. Hollis. I am Director, Corporate Finance for American Electric Power Service Corporation (AEPSC), which provides corporate financing support services for several of the public utility operating companies of the American Electric Power System (AEP System), including Southwestern Electric Power Company (SWEPCO or the Company). My business address is 1 Riverside Plaza, Columbus, Ohio.

Q. PLEASE DESCRIBE YOUR EDUCATIONAL AND BUSINESS BACKGROUND.

A. I earned a Bachelor of Science in Business Administration in Transportation and Logistics from The Ohio State University in 1996. I earned a Master of Business Administration with a concentration in Banking and Finance and Operations Management from the Weatherhead School of Management at Case Western Reserve University in 2003. I joined AEPSC as a credit risk analyst in AEP's Credit Risk department in June 2003. In 2005, I transferred to the Corporate Finance department as a senior financial analyst. In 2007, I was promoted to the Strategic Initiatives Group as an associate. In December 2010, I transferred into AEP Transmission as a Manager of Business Development. In 2013, I transferred to Manager of Project Portfolio and Strategic Initiatives in AEP Transmission. In 2016, I was promoted to Corporate Finance Manager in the Corporate Finance Group. In October of 2020, I was promoted to Director of Corporate Finance.

Q. HAVE YOU PREVIOUSLY TESTIFIED BEFORE OR BEEN AN EXPERT WITNESS IN PROCEEDINGS BEFORE REGULATORY BODIES?

A. Yes, I have presented testimony on behalf of SWEPCO before the Louisiana Public Service Commission, the Public Utility Commission of Texas, the Arkansas Public Service Commission, and the Corporation Commission of the State of Oklahoma.

In addition, I have presented testimony on behalf of AEP Texas Inc. before the Public Utility Commission of Texas, and on behalf of Indiana Michigan Power Company before the Indiana Utility Regulatory Commission.

II. PURPOSE OF TESTIMONY

Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY IN THIS PROCEEDING?

A. The purpose of my testimony is to address how SWEPCO intends to finance the investment in the wind and solar facilities that are the subject of this application (Selected Facilities) as well as the impact to SWEPCO's credit metrics and credit ratings.

III. FINANCING PLAN

Q. PLEASE DESCRIBE HOW SWEPCO INTENDS TO FINANCE THE SELECTED FACILITIES.

A. SWEPCO manages the financial needs of its business as a holistic business entity. With the Selected Facilities' costs being allocated to SWEPCO's three state jurisdictions and FERC jurisdictional customers SWEPCO's incremental financing need equates to approximately $2.175 billion. SWEPCO intends to finance the Selected Facilities in a manner that is consistent with its other capital additions and in a way that will ensure the Company's capitalization is aligned with its targeted capital structure. The Company intends to achieve this by employing Cash Flow from Operations and a combination of both short-term and long-term debt, and equity contributions from its parent, AEP. Due to the size of the investment within the designated timeframe, SWEPCO will largely rely on external debt funding and capital contributions from its parent to fund the Selected Facilities. The Company may also evaluate more elaborate commercial or financial structures, such as the use of a Tax Equity partnership, provided that there is the availability of a partner and it results in additional benefits for customers. The date of funding, however, will be dependent on when the Selected Facilities' become operational and title is transferred to the Company.

Q. DOES THE COMPANY PLAN TO UTILIZE EXISTING INDEBTEDNESS TO FUND THE SELECTED FACILITIES?

A. No. The Company initially intends to utilize the borrowing capacity that exists under its participation in the AEP Utility Money Pool, and to the extent needed, enter into short to medium term bank loans to bridge the cash needs of the project with the plan to access longer-term capital in the public and private debt capital markets to finance the Selected Facilities. Longer-term issuances of debt generally are sized to be in excess of $300 million to access the public debt capital markets.

Q. WHAT DRIVES THE TIMING OF WHEN AEP MIGHT ISSUE DEBT VERSUS WHEN THEY ISSUE EQUITY TO FUND THE CAPITALIZATION OF THE AEP COMPLEX OF SUBSIDIARY COMPANIES?

A. The decision of whether to issue debt or raise equity is a decision driven by the timing of the need juxtaposed to the availability to access the debt and or equity capital markets, or the bank loan markets. Since AEP is a publicly traded company on the NASDAQ there are periods of time related to the time our accounting books close and when that information becomes publicly disseminated that we term as "black out." This black out period is a time the company may be aware of material non-public information that can affect the financial performance of the company or affect the value of debt or equity securities. Issuing securities by AEP or its registered subsidiaries during this time opens the company to the risk of lawsuits related to non-disclosure. In circumstances where a project needs funding during a black out for some portion of its capital need, AEP may enter into a term loan with one or more of our relationship lenders. It may also be that if the capital markets are volatile, we may use a term loan to bridge a period of time to when the capital markets are less volatile. Since cash is fungible, AEP will utilize all tools available to ensure adequate liquidity is on hand to meet the demand of our business. This should not, however, be interpreted that the funding raised at any given period at AEP is directly assigned to a specific project or need, but rather it is the immediate need for cash to fund the Company's business and is a part of the capitalization of the parent.

IV. CREDIT RATING IMPACTS

Q. PLEASE GENERALLY DESCRIBE THE FINANCIAL IMPACT THE SELECTED FACILITIES WILL HAVE ON THE COMPANY.

A. SWEPCO has a total net property, plant, and equipment of $8,087.3 million as of March 31, 2022. At the close of this transaction, SWEPCO is expected to add an additional $2.175 billion related to the Selected Facilities, which is an increase of approximately 26.9%. Thus, the Selected Facilities will represent a significant investment for SWEPCO.

Q. WILL THE INVESTMENT IN THE SELECTED FACILITIES HAVE AN ADVERSE EFFECT ON THE COMPANY'S CURRENT CREDIT RATINGS?

A. No I don't believe so, rather to the contrary, due to the turn-key nature of these investments and provided there is timely recovery on and of the investment, I believe the acquisition of the Selected Facilities is supportive of the Company's long-term credit rating. Based on Moody's Investor Service's most resent credit opinion of the Company dated October 26, 2021 (which is attached as CONFIDENTIAL EXHIBIT NKH-1), the credit metrics will appear strained initially due to the immediacy of the capitalization of the project at its in-service date, but this is only until the Company begins to recognize the income and cash flow from the project when it is recognized as fully in rate base. Currently, SWEPCO has an investment grade credit rating of Baa2 stable by Moody's Investor Service and A- stable outlook by S&P, and BBB+ stable by Fitch. The Selected Facilities are expected to add to rate base and increase earnings for the Company. Consequently, the Selected Facilities would be expected to improve the cash flow to debt metrics of the Company. As previously published reports by Moody's Investor Service (which are attached as CONFIDENTIAL EXHIBITS NKH-2 and NKH-3) reflect, rate base renewable generation projects have a credit-positive impact. Consistent with those reports, I believe the Selected Facilities will be supportive of the Company's existing credit rating, assuming timely recovery of the investment through rates. If the Commission does not allow timely recovery of this investment, there could be an unfavorable impact to the Company's credit rating.

Q. WHAT WOULD BE THE IMPACT TO THE COMPANY'S CREDIT METRICS SHOULD THERE BE A MEANINGFUL DELAY IN RECOVERY OF THE SELECTED FACILITIES?

A. A meaningful delay in recovery of the Selected Facilities will strain the credit metrics as there will be an increase in debt to the Company upon the facilities going in-service without the associated earnings or cash flow. Dependent on how long the delay in the recovery lasts as well as the proportion of investment in question, the rating agencies could take action that may include placing the Company on negative outlook or even the possibility of a downgrade.

Q. DOES THIS CONCLUDE YOUR DIRECT TESTIMONY?

A. Yes, it does.

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