

Kentucky Power Company
KPSC Case No. 2023-00159
Commission Staff's Fifth Set of Data Requests
Dated October 6, 2023

DATA REQUEST

KPSC 5_1 Refer to Kentucky Power's response to Commission Staff's Second Request for Information (Staff's Second Request), Item 1(a)-(b). Provide the annual report referenced from Case No. 2017-00179.

RESPONSE

Please see KPCO_R_KPSC_5_1_Attachment1 for the Company's past 5 years' annual KEDS reports.

Witness: Amanda C. Clark

**COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION**

In the Matter of:

Electronic Application Of Kentucky Power)
Company For (1) A General Adjustment Of Its)
Rates For Electric Service; (2) An Order)
Approving Its 2017 Environmental Compliance)
Plan; (3) An Order Approving Its Tariffs And) Case No. 2017-00179
Riders; (4) An Order Approving Accounting)
Practices To Establish Regulatory Assets And)
Liabilities; And (5) An Order Granting)
All Other Required Relief And Approvals)

**KENTUCKY POWER COMPANY’S 2022 KENTUCKY ECONOMIC DEVELOPMENT
SURCHARGE PROGRAM REPORT**

Kentucky Power Company submits this annual report regarding the implementation of its Kentucky Economic Development surcharge program (“KEDS”) pursuant to Paragraph 10(c) of the Settlement agreement approved in the Public Service Commission of Kentucky’s (“Commission”) June 22, 2015 Order in Case No. 2014-00396. In that Order, the Commission recognized the importance of the role of an area’s utility in economic development and approved Kentucky Power Company’s application to establish the Kentucky Power Economic Growth Grant (“K-PEGG”) program. The K-PEGG program allows Kentucky Power to work strategically with communities, government, and economic development partners to facilitate business location and expansion in Kentucky Power’s service territory. Together, Kentucky Power and its community, government, and economic development partners are building a stronger eastern Kentucky.

KENTUCKY ECONOMIC DEVELOPMENT SURCHARGE

Paragraph 10(c) of the Settlement Agreement approved in Case No. 2014-00396 requires:

Kentucky Power shall file on or before March 31, 2016, and each March 31st thereafter, a report with the Commission describing: (i) the amount collected through the Economic Development Surcharge; and (ii) the matching amount contributed by Kentucky Power from shareholder funds. The annual report to be filed by the Company shall also describe the amount, recipients, and purposes of its expenditure of the funds collected through the Economic Development Surcharge and shareholder contribution.

The required information follows.

1. Funding

As described in the Company's March 31, 2016 filing in Case No. 2014-00396, Kentucky Power created the K-PEGG program to implement economic development activities funded through the KEDS. Kentucky Power maintains the K-PEGG program funds in a separate account.

Kentucky Power collected \$372,543.98 through the KEDS in 2022. The Company contributed \$372,543.98 in matching shareholder funds.

Since the K-PEGG program began in 2016, Kentucky Power has awarded a total of \$4,756,765 through 83 grant applications for projects to enhance economic development programs and projects that promote the creation and retention of manufacturing and/or industrial investment and jobs in the Company's 20-county service territory. A committee composed of representatives from Kentucky Power and external agencies ensures grant requests meet the guidelines of the K-PEGG program before determining awards. Grant funding is awarded for use in the following categories: Economic Development Education, Sites and Buildings-Product Improvement, Marketing and Promotion, and Professional Consulting Projects.

As described in more detail below, the Company in 2022 used \$951,483 K-PEGG program funds to award grants for economic development activities.

Grant Activity

Activity for 2022 included the review of ten grant applications requesting a total of \$1,008,733 in K-PEGG assistance. Kentucky Power awarded nine grants and declined one application. The K-PEGG grants issued and denied during 2022 are described below.

Approved Grants

- **Recipient: Johnson County Fiscal Court 2022-02**

Date of Grant: 03/09/2022

Amount of Grant: \$275,000 and the remainder of K-PEGG 2021-02 (\$21,775)

Counties Served: Floyd, Johnson, Pike, Morgan, Magoffin and Martin

Kentucky Power issued a K-PEGG to Johnson County Fiscal Court to continue the development of the Hager Hill Industrial Site. Johnson County made application to the Kentucky Product Development Initiative for further upgrades and will use K-PEGG funding as the grant match if awarded. The development process is on-going and will be carried into 2023.

- **Recipient: Ashland Alliance 2022-03**

Date of Grant: 05/14/2022

Amount of Grant: \$135,000

Counties Served: Boyd and Greenup

Kentucky Power issued a K-PEGG to Ashland Alliance for professional consulting services for direct marketing of an industrial property in the City of Ashland and organizational support. Ashland Alliance entered into a contract for lead generation and

marketing with Research FDI and to engage its federal delegation in regard to additional redevelopment funding. The project is on-going and will be carried into 2023.

- **Recipient: One East Kentucky 2022-04**

Date of Grant: 06/03/2022

Amount of Grant: \$270,000

Counties Served: Perry, Pike, Martin, Johnson, Letcher

Kentucky Power issued a K-PEGG to One East Kentucky for professional consulting services to create downtown development plans for the cities of: Whitesburg, Inez, Hazard, Pikeville, and Prestonsburg. One East entered into a contract with Retail Strategies in November 2022. Retail Strategies will meet with local stakeholders in March, May and July 2023. The anticipated result will provide communities with tools necessary for downtown revitalization efforts to attract community-building businesses which enhance the quality of life and create jobs. The intent is to develop an atmosphere that will retain talent in the region and secure the workforce for industrial development. While the funds have been expended, the final reports from Retail Strategies will not be available until Q4 2023. The project will be carried over to 2023.

- **Recipient: Hazard-Perry County Economic Development Alliance 2022-05**

Date of Grant: 09/23/2022

Amount of Grant: \$25,000

Counties Served: Perry, Knott, Breathitt and Leslie

Kentucky Power issued a K-PEGG grant to Hazard-Perry County Economic Development Alliance to support the organizational mission to attract, develop and expand a diversified business base in Perry County. The Alliance's primary focus is

marketing the Coal Fields Regional Industrial Park and jobs in general within the region.

All funds have been expended and all reports are up to date.

- **Recipient: City of Pikeville 2022-06**

Date of Grant: 10/07/2022

Amount of Grant: \$50,000

Counties Served: Pike

Kentucky Power issued a K-PEGG to the City of Pikeville to assist in the development of a medical industry cluster led by a non-profit organization (to be created) that will include city leaders, the regional hospital, institutions of higher education and businesses serving the industry. The K-PEGG award will assist in the planning, development, and future implementation of the establishment of an industry cluster targeting healthcare research and product development. Funds were awarded late in 2022. The first progress report is due March 31, 2023. The project will be carried into 2023.

- **Recipient: Shaping our Appalachian Region (“SOAR”) 2022-07**

Date of Grant: 10/10/2022

Amount of Grant: \$100,000

Counties Served: All 20 counties in Kentucky Power’s service territory

Kentucky Power issued a K-PEGG to SOAR to fund events planned to increase awareness of eastern Kentucky culture and accomplishment; and to provide funds needed to establish a remote worker recruitment program designed to recruit 10,000 remote workers to eastern Kentucky over the next 10 years. The K-PEGG was issued late in 2022 and will be carried over into 2023. The first quarterly report regarding project status is due to Kentucky Power on March 31, 2023.

- **Recipient: CEDAR, Inc. 2022-08**

Date of Grant: 11/07/2022

Amount of Grant: \$45,483

Counties Served: Breathitt, Boyd, Carter, Elliott, Floyd, Greenup, Johnson, Knott, Leslie, Letcher, Magoffin, Martin, Perry, Pike, and Owsley

Kentucky Power issued a K-PEGG to CEDAR, Inc. to fund the continuation of the CEDAR Future of Work in Appalachia Education Program. The program fosters a healthy entrepreneurial ecosystem and teaches students to embrace innovation in a way that brings positive change to their communities. These lessons will equip students with the skills needed to build a sustainable economy. The program is in its third year.

Kentucky Power participated in judging the Entrepreneurial Community Solutions Development Program contest. The K-PEGG was issued late in 2022 and will be carried over into 2023. The first quarterly report regarding project status is due to Kentucky Power on March 31, 2023.

- **Recipient: Lawrence County Fiscal Court 2022-09**

Date of Grant: 12/20/2022

Amount of Grant: \$30,000

Counties Served: All 20 counties in Kentucky Power's service territory

Kentucky Power issued a K-PEGG to Lawrence County Fiscal Court to obtain professional consulting services to identify potential industrial sites and determine the needs of each. Lawrence County entered into a contract with Next Move Group for services in January 2023. The K-PEGG was issued late in 2022 and will be carried over

into 2023. The first quarterly report regarding project status is due to Kentucky Power on March 31, 2023.

- **Recipient: City of Ashland 2022-10**

Date of Grant: 12/15/2022

Amount of Grant: \$21,000

Counties Served: Boyd

Kentucky Power issued a K-PEGG to the City of Ashland to assist in education for a newly hired economic development specialist. The specialist has completed the basic economic development course required to enroll in the University of Oklahoma Economic Development Institute. The grant will assist the City of Ashland with tuition and travel to the institute's three required sessions. The K-PEGG was issued late in 2022 and will be carried over into 2023. The first quarterly report regarding project status is due to Kentucky Power on March 31, 2023.

Denied Requests

- **Requestor: Big Sandy Community and Technical College 2022-01**

Amount Requested: \$57,250

BCTCS requested \$57,250 to conduct workforce training for Appalachian Tank.

Reason Denied: The application did not fit the K-PEGG guidelines.

Carried over 2020 projects

The below provides project activity for grants issued in 2020 that experienced continued activities in 2022. The amount shown for each is the 2020-awarded grant amount.

- Recipient: **One East Kentucky 2020-05**

Date of Grant: 04/05/2020

Amount of Grant: \$47,500

Counties Served: Floyd, Johnson, Pike, Morgan, Magoffin, Letcher, Perry, Knott, Lawrence, and Martin

Kentucky Power issued a K-PEGG to One East Kentucky to support a targeted marketing campaign for the coalfields region and a marketing tour/event for five prospective companies. Marketing pieces have been created. The tour was not able to be completed due to Covid. One East Kentucky re-purposed those funds for marketing. One East updated their website and marketing pieces. All funds have been expended and all reports are complete.

- Recipient: **Ashland Alliance 2020-12**

Date of Grant: 06/12/2020

Amount of Grant: \$34,000

Counties Served: Boyd, Greenup, Carter, Elliott and Lawrence

Kentucky Power issued a K-PEGG to Ashland Alliance to assist in lead generation and recruitment. Funds have been used to recruit businesses to a single site in EastPark. The project developed out of work previously funded through K-PEGG. K-PEGG assistance along with Kentucky Power/AEP Quality Certification and KY Build Ready site certification programs were vital drivers to this project. Job numbers and total investment will be announced at the discretion of the prospect. The remaining portion of the award purchased a Sales Force Lead Management subscription. All funds have been expended and the reports are complete.

- **Recipient: USA Drone Port 2020-14**

Date of Grant: 07/22/2020

Amount of Grant: \$55,000

Counties Served: All 20 counties in Kentucky Power's service territory

Kentucky Power issued a K-PEGG to USA Drone Port to construct a netted facility for drone testing. The grant will allow USA Drone Port to build one of the world's largest netted facilities and provide a broader option for their partners to test drones. A netted drone testing facility does not exist in Kentucky. The K-PEGG award, combined with Abandoned Mine Land Funds, increases the potential for job creation, innovation, and entrepreneurship in the robotic industry in eastern Kentucky. In 2022, the project began seeking an alternate location as there were right-of-way issues on its current property. The project construction has not begun, and the project will be carried over into 2023.

Carried over 2021 projects

The below provides project activity for grants issued in 2021 that experienced continued activities in 2022. The amount shown for each is the 2021-awarded grant amount.

- **Recipient: Grayson Tourism Commission 2021-01**

Date of Grant: 07/26/2021

Amount: \$75,000

Counties Served: Carter, Boyd, Elliott, Greenup, Johnson, Lawrence, Martin, Morgan, Lewis, and Rowan

Kentucky Power issued a K-PEGG to Grayson Tourism Commission to assist in the completion of the Grayson Sports Park. The City of Grayson and Grayson Tourism

invested \$7.1 million in the park. The sports park is the only one of its kind in the FIVCO Area Development District (Boyd, Carter, Elliott, Greenup and Lawrence counties), making it a destination for the area. The purpose of the park is to attract tourism into Grayson and the surrounding area, leading to a boost in economic development. Infrastructure construction was completed in 2022 and the park opened in the spring. All funds have been expended and all reports are complete.

- **Recipient: Johnson County Fiscal Court 2021-02**

Date of Grant: 03/02/2021

Amount of Grant: \$35,275 (partially funded; \$310,675 requested)

Counties Served: Floyd, Johnson, Pike, Morgan, Magoffin and Martin

Kentucky Power issued a K-PEGG to Johnson County Fiscal Court to fund the design and engineering costs associated with the Johnson County Fiscal Court's pursuit of Kentucky Build Ready Certification at Hager Hill. Hager Hill achieved Build Ready status in March 2022. The 2021 remaining balance of this award (\$21,775) was transferred to Johnson County's 2022 award and is considered complete.

- **Recipient: Ashland Alliance 2021-04**

Date of Grant: 06/08/2021

Amount of Grant: \$100,000

Counties Served: Boyd, Greenup, Carter, Elliott, and Lawrence

Kentucky Power issued a K-PEGG to Ashland Alliance for marketing, professional consultation, and organizational support. Lead generation has been a primary focus for Ashland Alliance. The organization participated in three recruitment trips resulting in fourteen active leads. Ashland Alliance had face-to-face meetings with 37 companies

looking to relocate or expand. All funds have been expended and all reports are complete.

- **Recipient: Martin County Fiscal Court 2021-05**

Date of Grant: 07/07/2021

Amount of Grant: \$25,000 (partially funded; \$100,000 requested)

Counties Served: Floyd, Johnson, Pike, Morgan, Magoffin and Martin

Kentucky Power issued a K-PEGG to Martin County Fiscal Court to assist in the due diligence for the former Caney Mine shaft site feasibility for industrial use. Martin County has completed the environmental Phase I assessment and currently is using the K-PEGG funds as a match to receive United States Department of Agriculture Rural Business Development Grant funds for preliminary assessment and site preparation. Martin County intends to spend the K-PEGG funds at the time that the funds from the USDA grant are released to Martin County.

- **Recipient: Shaping Our Appalachian Region (“SOAR”) 2021-06**

Date of Grant: 07/29/2021

Amount of Grant: \$50,000

Counties Served: All 20 counties in Kentucky Power’s service territory

Kentucky Power issued a K-PEGG to help facilitate two mini-summits in Kentucky Power’s service territory. SOAR hosted mini summits in Ashland and Hazard in 2022 that drew more than 1,000 participants. SOAR developed a scalable model to replicate in other communities in its territory. All funds have been expended and all reports are complete.

- **Recipient: eKentucky Advanced Manufacturing Institute 2021-08**

Date of Grant: 11/19/2021

Amount of Grant: \$100,000 (partially funded; \$350,000 requested)

Counties Served: Johnson, Martin, Lawrence, Floyd, Magoffin, Perry, Knott, Letcher, Pike, and Morgan

Kentucky Power issued a K-PEGG to eKentucky Advanced Manufacturing Institute, Inc. (“eKAMI”) to assist in digital upgrades to its website (\$25,000), production of an eKAMI and eastern Kentucky promotional video (\$25,000) and the purchase of an interactive digital presentation system (\$50,000). eKAMI purchased technology upgrades for audio/visual equipment. Upgrades have been made to the wireless internet connectivity throughout the building with the purchase of various boosters and software modules. Audio equipment was purchased and is being used with the current system. All funds have been expended and all reports are complete.

- **Recipient: CEDAR, Inc. 2021-09**

Date of Grant: 11/23/2021

Amount of Grant: \$27,856

Counties Served: Breathitt, Boyd, Carter, Elliott, Floyd, Greenup, Johnson, Knott, Leslie, Letcher, Magoffin, Martin, Perry, Pike, and Owsley

Kentucky Power issued a K-PEGG to CEDAR, Inc. to fund the continuation of the CEDAR Future of Work in Appalachia Education Program. The program fosters a healthy entrepreneurial ecosystem and teaches students to embrace innovation in a way that brings positive change to their communities. These lessons will equip students with the skills needed to build a sustainable economy. Eleven units of study focusing on at

least one of the seven pillars of the SOAR blueprint were implemented, involving 59 teachers and 1,479 students. All funds have been expended and all reports are complete.

- **Recipient: Hazard-Perry County Economic Development Alliance 2021-10**

Date of Grant: 12/16/2021

Amount of Grant: \$25,000

Counties Served: Perry, Knott, Breathitt, and Leslie

Kentucky Power issued a K-PEGG grant to Hazard-Perry County Economic Development Alliance (“HPCEDA”) to support the organizational mission to attract, develop and expand a diversified business base in Perry County. The Alliance’s primary focus is marketing the Coal Fields Regional Industrial Park and jobs in general within the region as a whole. HPCEDA visited 40 local businesses, discussed expansion opportunities with four local businesses, worked with five entrepreneurs seeing new locations in Perry County and managed an overall pipeline of 23 prospective companies interested in locating in Perry County. All funds have been expended and all reports are complete.

- **Recipient: Kentucky Association for Economic Development 2021-11**

Date of Grant: 12/21/2021

Amount of Grant: \$60,000

Counties Served: All 20 counties in Kentucky Power’s service territory

Kentucky Power issued a K-PEGG to Kentucky Association for Economic Development (“KAED”) to provide for continued economic development in Kentucky Power’s service territory. These efforts include marketing, product development, grant-making, site selection consultant activity and economic development educational opportunities.

KAED performed marketing and educational programming in the Kentucky Power service territory. Work related to product development, grant-making and site selection consultant activity was conducted in the service territory. KAED hosted the annual Kentucky Fall Forum in Ashland in November 2022. The event featured Kentucky economic developers, state officials, legislators, site selection consultants, local elected officials, workforce and education partners, and more. All funds have been expended and all reports are complete.

**COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION**

In the Matter of:

Electronic Application Of Kentucky Power)
Company For (1) A General Adjustment Of Its)
Rates For Electric Service; (2) An Order)
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Riders; (4) An Order Approving Accounting)
Practices To Establish Regulatory Assets And)
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All Other Required Relief And Approvals)

Case No. 2017-00179

**KENTUCKY POWER COMPANY'S 2021 KENTUCKY ECONOMIC DEVELOPMENT
SURCHARGE PROGRAM REPORT**

Kentucky Power Company submits this annual report regarding the implementation of its Kentucky Economic Development surcharge program ("KEDS") pursuant to Paragraph 10(c) of the Settlement agreement approved in the Public Service Commission of Kentucky's ("Commission") June 22, 2015 Order in Case No. 2014-00396. In that Order, the Commission recognized the importance of the role of an area's utility in economic development and approved Kentucky Power Company's application to establish the Kentucky Power Economic Growth Grant ("K-PEGG") program. The K-PEGG program allows Kentucky Power to work strategically with communities, government, and economic development partners to facilitate business location and expansion in Kentucky Power's service territory. Together, Kentucky Power and its community, government, and economic development partners are building a stronger eastern Kentucky.

KENTUCKY ECONOMIC DEVELOPMENT SURCHARGE

Paragraph 10(c) of the Settlement Agreement approved in Case No. 2014-00396 requires:

Kentucky Power shall file on or before March 31, 2016, and each March 31st thereafter, a report with the Commission describing: (i) the amount collected through the Economic Development Surcharge; and (ii) the matching amount contributed by Kentucky Power from shareholder funds. The annual report to be filed by the Company shall also describe the amount, recipients, and purposes of its expenditure of the funds collected through the Economic Development Surcharge and shareholder contribution.

The required information follows.

1. Funding

As described in the Company's March 31, 2016 filing in Case No. 2014-00396, Kentucky Power created the K-PEGG program to implement economic development activities funded through the KEDS. Kentucky Power maintains the K-PEGG program funds in a separate account.

Kentucky Power collected \$372,395.78 through the KEDS in 2021. The Company contributed \$372,395.78 in matching shareholder funds.

Since the K-PEGG program began in 2016, Kentucky Power has awarded a total of \$3,805,282 through 74 grant applications for projects to enhance economic development programs and projects that promote the creation and retention of manufacturing and/or industrial investment and jobs in the Company's 20-county service territory. A committee composed of representatives from Kentucky Power and external agencies ensures grant requests meet the guidelines of the K-PEGG program before determining awards. Grant funding is awarded for use in the following categories: Economic Development Education, Sites and Buildings-Product Improvement, Marketing and Promotion, and Professional Consulting Projects.

As described in more detail below, the Company in 2021 used \$498,131 K-PEGG program funds to award grants for economic development activities.

Grant Activity

Activity for 2021 included the review of 11 grant applications requesting a total of \$1,248,531 in K-PEGG assistance. Kentucky Power awarded six grants, partially funded three requests, and declined two applications. The Company awarded a total of \$498,131. The K-PEGG grants issued and denied during 2021 are described below.

Approved Grants

- **Recipient: Grayson Tourism Commission 2021-01**

Date of Grant: 07/26/2021

Amount: \$75,000

Counties Served: Carter, Boyd, Elliott, Greenup, Johnson, Lawrence, Martin, Morgan, Lewis, and Rowan

Kentucky Power issued a K-PEGG to Grayson Tourism Commission to assist in the completion of the Grayson Sports Park. The City of Grayson and Grayson Tourism invested \$7.1 million in the park. The sports park is the only one of its kind in the FIVCO Area Development District (Boyd, Carter, Elliott, Greenup and Lawrence counties), making it a destination for the area. The purpose of the park is to attract tourism into Grayson and the surrounding area, leading to a boost in economic development. Infrastructure construction is scheduled to begin in spring 2022. As of December 31, 2021, no money was spent from this award and the project will carry over into 2022.

- **Recipient: Johnson County Fiscal Court 2021-02**

Date of Grant: 03/02/2021

Amount of Grant: \$35,275 (partially funded; \$310,675 requested)

Counties Served: Floyd, Johnson, Pike, Morgan, Magoffin and Martin

Kentucky Power issued a K-PEGG to Johnson County Fiscal Court to fund the design and engineering costs associated with the Johnson County Fiscal Court's pursuit of Kentucky Build Ready Certification at Hager Hill. The K-PEGG committee will consider the remaining portions of the grant request for building pad and sewer construction after the design and engineering is complete. Johnson County completed all

necessary due diligence (site plat, master plan, building pad engineering, utility assessment, preliminary design and cost report for sewer upgrades, preliminary building design and construction plans, and storm water construction permit and was awarded Build Ready Certification by the Kentucky Cabinet for Economic Development. As of December 31, 2021, \$21,775 remained of this award to be spent. Johnson County plans to complete a few more site assessments with the remaining funds. The project will be carried into 2022.

- **Recipient: Ashland Alliance 2021-04**

Date of Grant: 06/08/2021

Amount of Grant: \$100,000

Counties Served: Boyd, Greenup, Carter, Elliott, and Lawrence

Kentucky Power issued a K-PEGG to Ashland Alliance for marketing, professional consultation and organizational support. Lead generation has been a primary focus for Ashland Alliance. The organization participated in three recruitment trips resulting in eleven active leads. As of December 31, 2021, \$76,991.22 remained to be spent from the award and will be carried over into 2022.

- **Recipient: Martin County Fiscal Court 2021-05**

Date of Grant: 07/07/2021

Amount of Grant: \$25,000 (partially funded; \$100,000 requested)

Counties Served: Floyd, Johnson, Pike, Morgan, Magoffin and Martin

Kentucky Power issued a K-PEGG to Martin County Fiscal Court to assist in the due diligence for the former Caney Mine shaft site feasibility for industrial use. Martin County has completed the environmental Phase I assessment and used KPEGG funds to leverage United States Department of Agriculture Rural Business Development Grant funds for preliminary assessment and site preparation. As of December 31, 2021, no KPEGG funds had been spent and the project will carry over into 2022.

- **Recipient: Shaping Our Appalachian Region (“SOAR”) 2021-06**

Date of Grant: 07/29/2021

Amount of Grant: \$50,000

Counties Served: All 20 Counties in Kentucky Power's Service Territory

Kentucky Power issued a K-PEGG to help facilitate two mini-summits in Kentucky Power's service territory. The first summit took place March 7-8, 2022 in Ashland. The date and location of the second summit is pending. As of December 31, 2021, no K-PEGG funds had been spent and the project will carry over into 2022.

- **Recipient eKentucky Advanced Manufacturing Institute 2021-08**

Date of Grant: 11/19/2021

Amount of Grant: \$100,000 (partially funded; \$350,000 requested)

Counties Served: Johnson, Martin, Lawrence, Floyd, Magoffin, Perry, Knott, Letcher, Pike, and Morgan

Kentucky Power issued a K-PEGG to eKentucky Advanced Manufacturing Institute, Inc. ("eKAMI") to assist in digital upgrades to its website (\$25,000), production of an eKAMI and eastern Kentucky promotional video (\$25,000) and the purchase of an interactive digital presentation system (\$50,000). The award was issued in late 2021 and will be carried over to 2022. The first quarterly report regarding project status is due to Kentucky Power on March 31, 2022.

- **Recipient: CEDAR, Inc. 2021-09**

Date of Grant: 11/23/2021

Amount of Grant: \$27,856

Counties Served: Breathitt, Boyd, Carter, Elliott, Floyd, Greenup, Johnson, Knott, Leslie, Letcher, Magoffin, Martin, Perry, Pike, and Owsley

Kentucky Power issued a K-PEGG to CEDAR, Inc. to fund the continuation of the CEDAR Future of Work in Appalachia Education Program. The program fosters a healthy entrepreneurial ecosystem and teaches students to embrace innovation in a way that brings positive change to their communities. These lessons will equip students with the skills needed to build a sustainable economy.

The program is in its second year. Kentucky Power will participate as a judge in the competition associated with the program. The K-PEGG was issued late in 2021 and will be carried over into 2022. The first quarterly report regarding project status is due to Kentucky Power on March 31, 2022.

- Recipient: **Hazard-Perry County Economic Development Alliance 2021-10**

Date of Grant: 12/16/2021

Amount of Grant: \$25,000

Counties Served: Perry, Knott, Breathitt, and Leslie

Kentucky Power issued a K-PEGG grant to Hazard-Perry County Economic Development Alliance to support the organizational mission to attract, develop and expand a diversified business base in Perry County. The Alliance's primary focus is marketing the Coal Fields Regional Industrial Park and jobs in general within the region as a whole.

The grant was awarded near the end of 2021 and will be carried over into 2022. The first quarterly report regarding project status is due to Kentucky Power on March 31, 2022.

- Recipient: **Kentucky Association for Economic Development 2021-11**

Date of Grant: 12/21/2021

Amount of Grant: \$60,000

Counties Served: All 20 Counties in Kentucky Power's Service Territory

Kentucky Power issued a K-PEGG to Kentucky Association for Economic Development ("KAED") to provide for continued economic development in Kentucky Power's service territory. These efforts include marketing, product development, grant-making, site selection consultant activity and economic development educational opportunities.

The grant was awarded near the end of 2021 and will be carried over into 2022. The first quarterly report regarding project status is due to Kentucky Power on March 31, 2022.

Denied Requests

- Requestor: **Martin County Fiscal Court 2021-03**

Amount Requested: \$100,000

Martin County Fiscal Court requested a K-PEGG to assist in the due diligence of the feasibility of the former Caney shaft site to be used for industrial development.

Reason Denied: The applicant (Judge Executive, Steve Goble) resigned. The K-PEGG committee asked Martin County to resubmit the application with an updated applicant. Application was re-submitted and granted as “2021-05.”

- Requestor: **Backroads of Appalachia, Inc. 2021-07**

Amount Requested \$50,000

Backroads of Appalachia, Inc. requested a K-PEGG to fund the marketing and promotion of Backroads of Appalachia’s motorsports trails and events in eastern Kentucky.

Reason Denied: The project did not fit K-PEGG guidelines.

2020 Projects Carried Into 2021

The below provides project activity for grants issued in 2020 that experienced continued activities in 2021. The amount shown for each is the 2020-awarded grant amount.

- Recipient: **Big Sandy Area Development District 2020-01**

Date of Grant: 2/5/2020

Amount: \$2,595

Counties Served: Floyd, Johnson, Pike, Magoffin, and Martin

Kentucky Power issued a K-PEGG to the Big Sandy Area Development District (“BSADD”) to help cover the cost associated with a BSADD employee’s lodging and tuition for the University of Oklahoma Economic Development Institute. In-person institutes were on hold for 2020 but the employee was able to participate online. Employee training was completed in 2021. All funds have been expended and all reports are complete.

- Recipient: **One East Kentucky 2020-05**

Date of Grant: 04/05/2020

Amount of Grant: \$47,500

Counties Served: Floyd, Johnson, Pike, Morgan, Magoffin, Letcher, Perry, Knott, Lawrence, and Martin

Kentucky Power issued a K-PEGG to One East Kentucky to support a targeted marketing campaign for the coalfields region and a marketing tour/event for five prospective companies. Marketing pieces have been created. The tour is on hold due to travel restrictions, and \$25,500 of this award will be carried over to 2022.

- Recipient: **One East Kentucky 2020-11**

Date of Grant 06/12/2020

Amount of Grant: \$73,000

Counties Served: Floyd, Johnson, Pike, Morgan, Magoffin, Letcher, Perry, Knott, Lawrence, and Martin

Kentucky Power issued a K-PEGG to One East Kentucky to create a full range of virtual capabilities for the nine-county region. Those capabilities include:

- VR 360-degree Familiarization Tour package, which will create community and site tours in a virtual format to be utilized online;
- Matterport facility videos, which will create 60-degree walkthrough capability at each industrial building in One East Kentucky's territory as well as 3-D rendered models of available buildings;
- 3-D virtual spec building integration to showcase multiple facility options on greenfield sites;
- virtual conference meetings which will allow One East Kentucky staff to meet in a virtual environment with company CEOs and decision makers across the globe; and,
- additional technical support and web integration.

All sites were filmed and project is complete. All funds have been expended and all reports are complete.

- Recipient: **Ashland Alliance 2020-12**

Date of Grant: 06/12/2020

Amount of Grant: \$34,000

Counties Served: Boyd, Greenup, Carter, Elliott and Lawrence

Kentucky Power issued a K-PEGG to Ashland Alliance to assist in lead generation and recruitment. Funds expended have been to recruit businesses to a single site in EastPark. The project developed out of work previously funded through K-PEGG. K-PEGG assistance along with Kentucky Power/AEP Quality Certification and KY Build Ready site certification programs were vital drivers to this active project. Job numbers and total investment will be announced at the discretion of the prospect. The remaining portion of the award purchased a Sales Force Lead Management subscription. The award has a remaining balance of \$8,972 and will be carried over to 2022.

- Recipient: **Letcher County Fiscal Court 2020-13**

Date of Grant: 09/14/2020

Amount of Grant: \$25,000 (Request partially funded; requested \$50,000)

Counties Served: Letcher, Knott, Perry, and Leslie surrounding counties

Kentucky Power issued a K-PEGG to Letcher County Fiscal Court to hire a consultant for guidance on developing a waste digester system. The system will turn solid waste/food into usable compost. The project expects to create twelve jobs within three years, reduce solid waste, reduce tipping costs for Letcher County, and create a business model that allows for sales of the compost. K-PEGG funds were requested to complete the development planning.

Project engineers completed a cost history study and found a location for the rotary drum digester. Letcher County has met with Sevierville Solid Waste to discuss costs, plans and logistics, for a solid waste pilot test. The geotechnical investigation and feasibility study are complete. A pro forma for the project has been created. All portions of the grant request have been completed. All funds have been expended and the reports are complete.

- Recipient: **USA Drone Port 2020-14**

Date of Grant: 07/22/2020

Amount of Grant: \$55,000 (Request partially funded; requested \$90,000)

Counties Served: All 20 Counties in Kentucky Power's Service Territory

Kentucky Power issued a K-PEGG to USA Drone Port to construct a netted facility for drone testing. The Kentucky Power Economic Growth Grant committee denied this request in 2019 because USA Drone port had not produced a deed to the property. The 2020 application provided proof of ownership and the grant was then partially funded.

The grant will allow USA Drone Port to build one of the world's largest netted facilities and provide a broader option for their partners to test drones. A netted drone testing facility does not exist in Kentucky. The K-PEGG award, combined with Abandoned Mine Land Funds, increases the potential for job creation, innovation, and entrepreneurship in the robotic industry in eastern Kentucky. The project construction has not begun and the project will be carried over into 2022.

- **Recipient: CEDAR, Inc. 2020-16**

Date of Grant: 09/28/2020

Amount of Grant: \$15,580

Counties Served: Breathitt, Boyd, Carter, Elliott, Floyd, Greenup, Johnson, Knott, Leslie, Letcher, Magoffin, Martin, Perry, Pike, and Owsley

Kentucky Power issued a K-PEGG to CEDAR, Inc. to fund the start-up of the CEDAR Future of Work in Appalachia Education Program. The program fosters a healthy entrepreneurial ecosystem and teaches students to embrace innovation in a way that brings positive change to their communities. These lessons will equip students with the skills needed to build a sustainable economy.

The project has launched and workshop materials created. Website construction is under way. The K-PEGG award leveraged \$15,000 in funds from other sources. The Entrepreneurial Coal Lands Redevelopment, Future of Work Teacher Study Unit, and student fair programs for 2021 are complete. All funds have been expended and all reports are complete.

- **Recipient: Hazard-Perry County Economic Development Alliance 2020-17**

Date of Grant: 12/4/2020

Amount of Grant: \$25,000

Counties Served: Perry, Knott, Breathitt, and Leslie

Kentucky Power issued a K-PEGG to Hazard-Perry County Economic Development Alliance ("HPCEDA") to support the organizational mission to attract, develop and expand a diversified business base in Perry County. The Alliance's primary focus is marketing the Coal Fields Regional Industrial Park and jobs in general within the region as a whole.

Hazard-Perry County Economic Development Alliance continued its work in retaining existing businesses and recruiting new industry to Perry County. HPCEDA began a

partnership with One East Kentucky to assist with recruitment efforts and further align goals. All funds have been expended and all reports are complete.

- **Recipient: Morehead-Rowan County Economic Development Corp. 2020-21**

Date of Grant: 11/16/2020

Amount of Grant: \$2,500

Counties Served: Rowan, Morgan, Carter, Menifee, and Lewis surrounding counties

Kentucky Power issued a K-PEGG to Morehead-Rowan County Economic Development Corp. as one of three energy partners helping to facilitate the organization's service territory being added to the in-progress Boyette Workforce Study. The study will add Rowan County data to the other counties already participating in the regional Boyette Study.

The Boyette Workforce Study completed in 2021. All funds have been expended and all reports are complete.

**COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION**

In the Matter of:

Electronic Application Of Kentucky Power)
Company For (1) A General Adjustment Of Its)
Rates For Electric Service; (2) An Order)
Approving Its 2017 Environmental Compliance)
Plan; (3) An Order Approving Its Tariffs And)
Riders; (4) An Order Approving Accounting)
Practices To Establish Regulatory Assets And)
Liabilities; And (5) An Order Granting)
All Other Required Relief And Approvals)

Case No. 2017-00179

**KENTUCKY POWER COMPANY'S 2020 KENTUCKY ECONOMIC DEVELOPMENT
SURCHARGE PROGRAM REPORT**

Kentucky Power Company submits this annual report regarding the implementation of its Kentucky Economic Development surcharge program ("KEDS") pursuant to Paragraph 10(c) of the Settlement agreement approved in the Public Service Commission of Kentucky's ("Commission") June 22, 2015 Order in Case No. 2014-00396. In that Order, the Commission recognized the importance of the role of an area's utility in economic development and approved Kentucky Power Company's application to establish the Kentucky Power Economic Growth Grant ("K-PEGG") program. The K-PEGG program allows Kentucky Power to work strategically with communities, government, and economic development partners to facilitate business location and expansion in the Kentucky Power's service territory. Together, Kentucky Power and its community, government, and economic development partners are building a stronger eastern Kentucky.

KENTUCKY ECONOMIC DEVELOPMENT SURCHARGE

Paragraph 10(c) of the Settlement Agreement approved in Case No. 2014-00396 requires:

Kentucky Power shall file on or before March 31, 2016, and each March 31st thereafter, a report with the Commission describing: (i) the amount collected through the Economic Development Surcharge; and (ii) the matching amount contributed by Kentucky Power from shareholder funds. The annual report to be filed by the Company shall also describe the amount, recipients, and purposes of its expenditure of the funds collected through the Economic Development Surcharge and shareholder contribution.

The required information follows.

1. Funding

As described in the Company's March 31, 2016 filing in Case No. 2014-00396, Kentucky Power created the K-PEGG program to implement economic development activities funded through the KEDS. Kentucky Power maintains the K-PEGG program funds in a separate account.

Since the K-PEGG program began in 2016, Kentucky Power has awarded a total of \$3,307,151 through 65 grant applications for projects to enhance economic development programs and projects that promote the creation and retention of manufacturing and/or industrial investment and jobs. The K-PEGG program is specific to Kentucky Power's 20-county service territory. A committee composed of representatives from Kentucky Power and external agencies ensures grant requests meet the guidelines of the K-PEGG program before determining awards. Grant funding is awarded for use in the following categories: Economic Development Education, Sites and Buildings-Product Improvement, Marketing and Promotion, and Professional Consulting Projects.

As described in more detail below, the Company in 2020 used \$859,175 K-PEGG program funds to award grants for economic development activities.

2. **Grant Activity**

Activity for 2020 included the review of 21 grant applications totaling \$1,113,675.

Kentucky Power awarded 15 grants, partially funded four requests, and declined two applications for a total of \$859,175. The K-PEGG grants issued and denied during 2020 are described below:

- **Recipient: Big Sandy Area Development District 2020-01**

Date of Grant: 2/5/2020

Amount: \$2,595

Counties Served: Floyd, Johnson, Pike, Magoffin, and Martin

Kentucky Power issued a K-PEGG grant to the Big Sandy Area Development District (“BSADD”) to help cover the cost associated with a BSADD employee’s lodging and tuition for the University of Oklahoma Economic Development Institute. In-person institutes were on hold for 2020 but the employee was able to participate online. Employee training will continue in 2021 using the remaining \$820.00 of the grant funding.

- **Recipient: Pikeville Medical Center 2020-02**

Date of Grant: 04/22/2020

Amount of Grant: \$140,000

Counties Served: Floyd, Johnson, Pike, Morgan, Magoffin, Letcher, Perry, Knott, Lawrence, and Martin

Kentucky Power issued a K-PEGG grant to Pikeville Medical Center to assist with the construction of a pediatric emergency department. The project will create 50 jobs and retain 100 existing jobs over the next three years.

This award helped the medical center leverage \$6.2 million in federal funding to complete the project. Construction was scheduled to be complete by December 2020. Pikeville Medical Center used the space designated for this project as an overflow emergency department during the pandemic and the completion date is delayed to May 2021. All K-PEGG funds have been expended and all reports are complete.

- **Recipient: One East Kentucky 2020-03**

Date of Grant: 02/12/2020

Amount of Grant: \$60,000

Counties Served: Floyd, Johnson, Pike, Morgan, Magoffin, Letcher, Perry, Knott, Lawrence, and Martin

Kentucky Power issued a K-PEGG grant to One East Kentucky in support of efforts to recruit industry, develop marketing materials, support regional chambers of commerce, initiate regional economic development strategies and enhance opportunities for industrial sites.

One East Kentucky used its K-PEGG grant award during the pandemic to participate in 15 regional strategy sessions, implement five new strategies, follow up with 100 prospective companies, and host six site visits during 2020. These meetings and visits have the potential to add 450 new jobs to the region. One East Kentucky also leveraged grant awards (such as K-PEGG) and contributions from other businesses to secure over \$1.2 million from Appalachian Regional Commission toward new strategic efforts over the next three years. All funds have been expended and all reports are complete.

- **Recipient: One East Kentucky 2020-04**

Date of Grant: 02/12/2020

Amount of Grant: \$30,000

Counties Served: Floyd, Johnson, Pike, Morgan, Magoffin, Letcher, Perry, Knott, Lawrence, and Martin

Kentucky Power issued a K-PEGG grant to One East Kentucky to help facilitate the EKY Works 2.0 study which provides prospective companies with valuable information, insights and strategies regarding the availability and skills of the regional workforce. The Company's award is a portion of the overall project cost funded by multiple organizations.

The survey is on-going as it was delayed by school closures and travel restrictions. All funds have been expended and all reports are complete.

- **Recipient: One East Kentucky 2020-05**

Date of Grant: 04/05/2020

Amount of Grant: \$47,500 (Request partially funded; requested \$57,000)

Counties Served: Floyd, Johnson, Pike, Morgan, Magoffin, Letcher, Perry, Knott, Lawrence, and Martin

Kentucky Power issued a K-PEGG grant to One East Kentucky to support a targeted marketing campaign for the coalfields region and a marketing tour/event for five prospective companies. Marketing pieces have been created. The tour is on hold due to travel restrictions, and \$25,500 of this award will be carried over to 2021.

- Recipient: **Kentucky Association for Economic Development 2020-08**

Date of Grant: 5/13/2020

Amount of Grant: \$20,000

Counties Served: Kentucky Power 20-County Service Territory

Kentucky Power issued a K-PEGG grant to the Kentucky Association for Economic Development (“KAED”) for the Commonwealth of Kentucky’s product development initiative (“PDI”). The program is a partnership between KAED and the Kentucky Cabinet for Economic Development (“KCED”) to promote corporate investment and job growth across the Commonwealth. To achieve this initiative, KAED and KCED engaged Site Selection Group (“SSG”) to manage the program. SSG evaluates and makes recommendations to the PDI committee to provide monetary assistance to create more competitive sites and buildings across Kentucky.

Twenty-seven properties submitted a full application to participate in the PDI. Fourteen communities were visited by Site Selectors Guild as part of the process and received feedback about their sites. All funds have been expended and all reports are complete.

- Recipient: **Shaping Our Appalachian Region (“SOAR”) 2020-09**

Date of Grant: 06/01/2020

Amount of Grant: \$25,000

Counties Served: Kentucky Power 20-County Service Territory

Kentucky Power issued a K-PEGG grant to help SOAR fulfill its mission of expanding job creation, enhancing regional opportunity, innovation, and identity, improving the quality of life, and supporting all those working to achieve these goals in Appalachian Kentucky. Like the grants issued in 2016 and 2019, the funds provided by Kentucky Power allowed SOAR to cover a portion of its operational expenses. SOAR is one of Kentucky Power’s key regional economic development partners. The SOAR Summit was held virtually on October 28-29, 2020. Grant funds were used to facilitate the summit. The virtual format Hopin was used to expand the reach of the summit. All funds have been expended and all reports are complete.

- **Recipient: **Big Sandy Community and Technical College 2020-10****

Date of Grant: 5/19/2020

Amount of Grant: \$65,000

Counties Served: Johnson, Martin, Magoffin, Floyd, and Pike

Kentucky Power issued a K-PEGG to Big Sandy Community and Technical College to complete infrastructure changes needed for the Mayo Hub to be utilized for recruitment, training, hiring, and housing employees for General Dynamics Information Technology (“GDIT”).

Since the Hub was completed, GDIT has hired and trained 33 employees. At current capacity, the project’s economic impact is \$1,066,729. GDIT projects the number of employees will continue to grow and anticipates 70 employees by the end of 2020. Currently, there are 100 applications in the pipeline for new employees. All funds have been expended and all reports are complete.

- **Recipient: **One East Kentucky 2020-11****

Date of Grant 06/12/2020

Amount of Grant: \$73,000

Counties Served: Floyd, Johnson, Pike, Morgan, Magoffin, Letcher, Perry, Knott, Lawrence, and Martin

Kentucky Power issued a K-PEGG grant to One East Kentucky to create a full range of virtual capabilities for the nine-county region. Those capabilities include:

- VR 360-degree Familiarization Tour package, which will create community and site tours in a virtual format to be utilized online;
- Matterport facility videos, which will create 60-degree walkthrough capability at each industrial building in One East Kentucky’s territory as well as 3-D rendered models of available buildings;
- 3-D virtual spec building integration to showcase multiple facility options on greenfield sites;
- virtual conference meetings which will allow One East Kentucky staff to meet in a virtual environment with company CEOs and decision makers across the globe; and,
- additional technical support and web integration.

The filming of each site is underway, with \$21,250 of the grant spent on the filming contract. The remaining \$51,750 will be paid upon completion of the videos. The project will be carried over into 2021.

- **Recipient: Ashland Alliance 2020-12**

Date of Grant: 06/12/2020

Amount of Grant: \$34,000

Counties Served: Boyd, Greenup, Carter, Elliott and Lawrence

Kentucky Power issued a K-PEGG grant to Ashland Alliance to assist in lead generation and recruitment. Currently, all funds expended (\$13,194.80) have been specific to marketing one site in EastPark for an active recruitment. The project developed out of work previously funded through K-PEGG. K-PEGG assistance along with Kentucky Power/AEP Quality Certification and KY BuildReady site certification programs were vital drivers to this active project. The remaining balance of this grant (\$20,808.20) will be carried over to 2021. Job numbers and total investment will be announced at the discretion of the prospect in 2021.

- **Recipient: Letcher County Fiscal Court 2020-13**

Date of Grant: 09/14/2020

Amount of Grant: \$25,000 (Request partially funded; requested \$50,000)

Counties Served: Letcher, Knott, Perry, and Leslie surrounding counties

Kentucky Power issued a K-PEGG grant to Letcher County Fiscal Court to hire a consultant for guidance on developing a waste digester system. The system will turn solid waste/food into usable compost. The project expects to create twelve jobs within three years, reduce solid waste, reduce tipping costs for Letcher County, and create a business model that allows for sales of the compost.

Engineering procurement has been completed and Letcher County has awarded an engineering contract. The engineer met with Letcher County staff and a pilot test was scheduled. The test has been postponed. A geotechnical study is scheduled for March 2021. No K-PEGG funds have been spent toward this project to date, and it will be carried over into 2021.

- **Recipient: USA Drone Port 2020-14**

Date of Grant: 07/22/2020

Amount of Grant: \$55,000 (Request partially funded; requested \$90,000)

Counties Served: Kentucky Power 20-County Service Territory

Kentucky Power issued a K-PEGG grant to USA Drone Port to construct a netted facility for drone testing. The Kentucky Power Economic Growth Grant committee denied this request in 2019 because USA Drone port had not produced a deed to the property. The 2020 application provided proof of ownership. The grant will allow USA Drone Port to build one of the world's largest netted facilities and provide a broader option for their partners to test drones. A netted drone testing facility does not exist in Kentucky. The K-PEGG award, combined with Abandoned Mine Land Funds, increases the potential for job creation, innovation, and entrepreneurship in the robotic industry in eastern Kentucky. The project construction has not begun, and the project will be carried over into 2021.

- **Recipient: Martin County Fiscal Court 2020-15**

Date of Grant: 12/08/2020

Amount of Grant: \$25,000 (Request partially funded; requested \$100,000)

Counties Served: Floyd, Johnson, Magoffin, Martin and Pike

Kentucky Power issued a K-PEGG grant to Martin County Fiscal Court as close-the-deal funding for the Inez Power project in Debord, KY. The grant will assist Martin County in providing air quality monitoring equipment needed for the project's completion. A proposed 50 jobs will be created with the completion of the project. All funds have been expended and all reports are complete.

- **Recipient: CEDAR, Inc. 2020-16**

Date of Grant: 09/28/2020

Amount of Grant: \$15,580

Counties Served: Breathitt, Boyd, Carter, Elliott, Floyd, Greenup, Johnson, Knott, Leslie, Letcher, Magoffin, Martin, Perry, Pike, and Owsley

Kentucky Power issued a K-PEGG grant to CEDAR, Inc. to fund the start-up of the CEDAR Future of Work in Appalachia Education Program. The program fosters a healthy entrepreneurial ecosystem and teaches students to embrace innovation in a way that brings positive change to their communities. Once learned, these lessons will equip students with the skills needed to build a sustainable economy.

The project has launched and workshop materials created. Website construction is under way. The K-PEGG award leveraged \$15,000 in funds from other sources. The Entrepreneurial Coal Lands Redevelopment, Future of Work Teacher Study Unit, and student fair programs will take place in 2021. The grant has a remaining balance of \$5,383.78, and it will be carried over into 2021.

- **Recipient: Hazard-Perry County Economic Development Alliance 2020-17**

Date of Grant: 12/4/2020

Amount of Grant: \$25,000

Counties Served: Perry, Knott, Breathitt, and Leslie

Kentucky Power issued a K-PEGG grant to Hazard-Perry County Economic Development Alliance to support the organizational mission to attract, develop and expand a diversified business base in Perry County. The Alliance's primary focus is marketing the Coal Fields Regional Industrial Park and jobs in general within the region as a whole.

The grant was awarded near the end of 2020 and will be carried over into 2021. The first quarterly report regarding project status is due to Kentucky Power on March 31, 2021.

- **Recipient: eKentucky Advanced Manufacturing Institute 2020-18**

Date of Grant: 09/14/2020

Amount of Grant: \$25,000

Counties Served: Johnson, Martin, Lawrence, Floyd, Magoffin, Perry, Knott, Letcher, Pike, and Morgan

Kentucky Power issued a K-PEGG grant to eKentucky Advanced Manufacturing Institute, Inc. ("eKAMI") to assist in the purchase of a robot needed for the robotics lab. The robot will allow for additional hands-on training in advanced manufacturing robotic integration. The students at eKAMI will receive a robotics certification, furthering the retraining of the eastern Kentucky workforce.

eKAMI purchased an additional robot. All funds have been expended and all reports are complete.

- **Recipient: Greenup County 2020-19**

Date of Grant: 09/18/2020

Amount of Grant: \$69,000

Counties Served: Boyd, Greenup, Carter, Lawrence, and Elliott

Kentucky Power issued a K-PEGG grant to Greenup County Fiscal Court to construct a road in EastPark in partnership with Boyd County. The 1,300 feet of road completed an incomplete road to EastPark's BuildReady Certified Site and 80 acres in the park that were previously inaccessible. The road was built for an active recruitment project that expects to bring over 200 jobs. The project is complete and all funds have been expended.

- **Recipient: One East Kentucky 2020-20**

Date of Grant: 10/19/2020

Amount of Grant: \$120,000

Counties Served: Breathitt, Floyd, Knott, Johnson, Lawrence, Letcher, Magoffin, Martin, Perry, and Pike

Kentucky Power issued a K-PEGG grant to One East Kentucky to assist One East Kentucky in making a 20% match required by the Appalachian Regional Commission ("ARC") for its award of \$1.2 million to One East Kentucky. The ARC-funded project is planned to assist regionally in the following areas: industrial recruitment, business retention and expansion, EKY Builds "Ready-Site" program, retail strategies for multiple communities and many other facets of the OEK Vision 2020 Strategic Plan. One East Kentucky has hired an existing industry liaison. K-PEGG funds were transferred per the requirements of the ARC award. All progress reports are complete.

- **Recipient: Morehead-Rowan County Economic Development Corp. 2020-21**

Date of Grant: 11/16/2020

Amount of Grant: \$2,500

Counties Served: Rowan, Morgan, Carter, Menifee, and Lewis surrounding counties

Kentucky Power issued a K-PEGG grant to Morehead-Rowan County Economic Development Corp. ("MMRC") as one of three energy partners helping to facilitate MMRC's service territory being added to the in-progress Boyette Workforce Study. The study will add Rowan County data to the other counties already participating in the regional Boyette Study. The grant was awarded near the end of 2020 and will be carried over into 2021. The first quarterly report regarding the project is due to Kentucky Power on March 31, 2021.

Denied Requests

- **2020-06 The Appalachian Center for the Arts**
Requested \$10,000.

The Appalachian Center for the Arts requested a K-PEGG grant to develop theater and technical theater certificate and college programs.

Denied: The project does not fit the K-PEGG guidelines.

- **2020-07 Neighbors Helping Neighbors**
Requested \$100,000.

Neighbors Helping Neighbors requested a K-PEGG grant to fund the WORK of Art program maker space, intended to assist local artisans with the creation of their projects.

Denied: The project does not fit the K-PEGG guidelines.

**COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION**

In the Matter of:

Electronic Application Of Kentucky Power)
Company For (1) A General Adjustment Of Its)
Rates For Electric Service; (2) An Order)
Approving Its 2017 Environmental Compliance)
Plan; (3) An Order Approving Its Tariffs And) Case No. 2017-00179
Riders; (4) An Order Approving Accounting)
Practices To Establish Regulatory Assets And)
Liabilities; And (5) An Order Granting)
All Other Required Relief And Approvals)

**KENTUCKY POWER COMPANY'S MARCH 31, 2020 KENTUCKY ECONOMIC
DEVELOPMENT SURCHARGE PROGRAM REPORT**

Kentucky Power Company submits this annual report regarding the implementation of its Kentucky Economic Development surcharge program ("KEDS") pursuant to Paragraph 10(c) of the Settlement agreement approved in the Public Service Commission of Kentucky's ("Commission") June 22, 2015 Order in Case No. 2014-00396. In that Order, the Commission recognized the importance of the role of an area's utility in economic development and approved Kentucky Power Company's application to establish the Kentucky Power Economic Growth Grant ("K-PEGG") program. The K-PEGG program allows Kentucky Power to work strategically with communities, government, and economic development partners to facilitate business location and expansion in the Kentucky Power's service territory. Together, Kentucky Power and its community, government, and economic development partners are building a stronger eastern Kentucky.

KENTUCKY ECONOMIC DEVELOPMENT SURCHARGE

Paragraph 10(c) of the Settlement Agreement requires:

Kentucky Power shall file on or before March 31, 2016, and each March 31st thereafter, areport with the Commission describing: (i) the amount collected through the Economic Development Surcharge; and (ii) the matching amount contributed by Kentucky Power from shareholder funds. The annual report to be filed by the Company shall also describe the amount, recipients, and purposes of its expenditure of the funds collected through the Economic Development Surcharge and shareholder contribution.

The required information follows.

1. Funding

As described in the Company's March 31, 2016 filing in Case No. 2014-00396, Kentucky Power created the K-PEGG program to implement economic development activities funded through the Kentucky Economic Development Surcharge ("KEDS"). Kentucky Power maintains the K-PEGG program funds in a separate account.

Kentucky Power collected \$370,466.16 through the KEDS in 2019. The Company contributed \$370,466.16 in matching shareholder funds.

Since the K-PEGG program began in 2016, Kentucky Power has awarded a total of \$2,721,976 in K-PEGG funds through 52 grant applications for projects to enhance economic development programs and projects that promote the creation and retention of manufacturing and/or industrial investment and jobs. The K-PEGG program is specific to Kentucky Power's twenty county service territory. Grant funding is awarded for use in the following categories: Economic Development Education, Sites and Buildings-Product Improvement; Marketing and Promotion; and Professional Consulting Projects.

As described in more detail below, the Company used K-PEGG program funds for \$914,750 in grants for economic development activities in its service territory in 2019.

2. **Grant Activity**

Kentucky Power considered a total of 15 grant applications in 2019. The Company issued 12 grants and denied three applications. The K-PEGG grants issued and denied during 2019 are described below:

- **Recipient: One East Kentucky 2019-01**

Date of Grant: 2/1/2019

Amount of Grant: \$50,000

Counties Served: Floyd, Johnson, Pike, Morgan, Magoffin, Letcher, Perry, Knott, Lawrence, and Martin.

Kentucky Power issued a K-PEGG grant to One East Kentucky (OEK) in support of its efforts to recruit industry, develop marketing materials, support regional chambers of commerce, initiate regional economic development strategies, and enhance opportunities for industrial sites.

One East Kentucky used its K-PEGG grant award to participate in 60 meetings with target industries as well as to secure 13 industry site visits. These meetings and visits led to the announcement of 590 new jobs. One East Kentucky also used K-PEGG funds to implement five new strategies and secure 40 additional partners for the organization

- **Recipient: Shaping our Appalachian Region (SOAR) 2019-02**

Date of Grant: 03/12/2019

Amount of Grant: \$25,000

Counties Served: Kentucky Power 20-County Service Territory

Kentucky Power issued a K-PEGG grant to SOAR to help SOAR fulfill its mission of expanding job creation, enhancing regional opportunity, innovation, and identity, improving the quality of life, and supporting all those working to achieve these goals in Appalachian Kentucky. Like the grant issued in 2016, the funds provided by Kentucky Power allowed SOAR to cover a portion of its operational expenses, support regional projects, and develop an on-line community. SOAR is one of Kentucky Power's key regional economic development partners.

With K-PEGG grant funds, SOAR enhanced its digital presence and reached over 540,000 people through its social media channels, websites, and newsletter/event distribution lists. The SOAR Summit in 2019 had over 1,300 people in attendance.

In addition, SOAR identified over 700 projected job openings through its healthcare workforce collaborative and initiated 69 referrals from small business and/or start-ups to resource partners.

SOAR also created the CO. STARTER program in 2019. CO. STARTERS is a nine-week, cohort-based program that equips aspiring entrepreneurs with the insights, relationships, and tools needed to turn business ideas into action and turn a passion into a sustainable and thriving endeavor. Twenty-two CO.STARTERS graduated in the first cohort in 2019.

- Recipient: **One East Kentucky 2019-03**

Date of Grant: 03/12/2019

Amount of Grant: \$30,000

Counties Served: Floyd, Johnson, Pike, Morgan, Magoffin, Letcher, Perry, Knott, Lawrence, and Martin.

Kentucky Power issued a K-PEGG grant to One East Kentucky to assist with:

Costs associated with the Project Lion facility build-out and design [\$10,000].

Project Lion was an effort to recruit a manufacturer. As part of the Project Lion recruitment, K-PEGG grant funds were used to provide building design and site build-out plans for the East Kentucky Business Park in Martin County. \$2,000,000 in Abandoned Mine Land (AML) funds were also secured for the project. The company associated with Project Lion chose not to go forward with the project. One East Kentucky was able to use the plans created for Project Lion for the Pinnacle Park project also to be located in the East Kentucky Business Park and thereby retain the AML funds.

The Big Sandy Industrial Development Authority will construct the region's first 200,000 square-foot Kentucky Certified Build-Ready Site as part of the Pinnacle Park project. The construction will make the East Kentucky Business Park the region's most well rounded industrial park, offering a variety of real estate options.

Without the K-PEGG grant funding, One East Kentucky would not have been able to utilize the AML funds or an additional \$1.3 million in other grants to market East Kentucky Business Park for the Pinnacle Park project. Currently, One East Kentucky is marketing the park's 45,000 square-foot shell building, a 55,000 square-foot finished building, and a 32,000 square-foot multi-use international attraction facility (the International Landing Zone).

Facilitate a multi-county elected official training session [\$5,000]

One East Kentucky hosted a professional education and regionalism workshop to educate local elected officials on their role in economic development. Sixty-seven elected officials attended the training.

Recruitment of Project Core [\$5,000]

K-PEGG grant funds were used for workforce and job training as well as funding assistance for state incentive application fees associated with Project Core. Project Core resulted in the May 2019 announcement by Dajcor Aluminum Ltd., a Canadian manufacturer of extruded and fabricated aluminum products, of 265 full-time jobs and the investment of nearly \$19.6 million to locate its first US operation near Hazard. The Dajcor facility will be located in the Perry County Coalfields Industrial Park.

Print Advertising [\$10,000]

One East Kentucky used K-PEGG grant funds to purchase national, multi-issue print advertisements for the OEK region in the Kentucky Economic Development Guide and Site Selection Magazine.

- Recipient: **One East Kentucky 2019-04**

Date of Grant: 04/10/2019

Amount of Grant: \$35,000

Counties Served: Floyd, Johnson, Pike, Morgan, Magoffin, Letcher, Perry, Knott, Lawrence, and Martin with an emphasis on Perry County.

Kentucky Power issued a K-PEGG grant to OEK in connection with Project Core to host a regional tour/event designed to encourage additional jobs and investment from Dajcor Aluminum and its suppliers.

Dajcor announced its plans for the Coalfields Industrial Park shortly following the event. OEK met with 14 individuals during the event, including company officials, local community partners, state and local government officials and a private site selection consultant.

- **Recipient: Ashland Alliance 2019-05**

Date of Grant: 03/28/2019

Amount of Grant: \$105,000

Counties Served: Boyd, Carter, Greenup, Lawrence and Elliott counties

Kentucky Power issued a K-PEGG grant to Ashland Alliance for site and master plan development for the expansion of Northeast Kentucky Development Authority, (EastPark). This funding will allow for the comprehensive evaluation of existing land and the master planning of assets for the development of sites needed within the next three to five years. K-PEGG grant funding also will be used to create a marketing plan for EastPark expansion.

Ashland Alliance used the K-PEGG grant award to leverage an additional \$100,000 for site development in connection with EastPark expansion.

Because of additional assets being identified for this expansion project, Ashland Alliance hosted a site visit for a potential \$100 million investment and 500-job prospect. The project is ongoing.

- **Recipient: Kentucky Chamber of Commerce 2019-06**

Date of Grant: 04/21/2019

Amount of Grant: \$6,000

Counties Served: Kentucky Power 20-County Service Territory

Kentucky Power issued a K-PEGG grant to the Kentucky Chamber of Commerce to fund six scholarships to the Kentucky Institute for Economic Development (KIED), Basic Class.

K-PEGG grant funding assisted Kentucky Power service territory chamber representatives and economic development practitioners to attend KIED for economic development training.

- **Recipient: City of Pikeville 2019-08**

Date of Grant: July 22, 2019

Amount of Grant: \$75,000

Counties Served: Pike County

Kentucky Power issued a K-PEGG grant to the City of Pikeville to support initiatives to grow and promote the Kentucky Enterprise Industrial Park (KEIP) in Pikeville.

The plan will:

- Examine additional industrial site development
- Examine transportation needs related to the park and identify opportunities for upgrades
- Develop business retention and expansion strategies for KEIP including growth/expansion of existing area businesses and attraction of external firms
- Examine the regional fiber optic infrastructure and recommend initiatives to expand the network
- Support the development of marketing strategies for the KEIP including the creation of marketing materials
- Identify opportunities for promoting KEIP

K-PEGG grant funds were used to retain a consultant and six focus groups and open community meetings have been conducted. The project is ongoing.

- **Recipient: Johnson County Pathway to Economic Development (“JCPED”) (Year 2 of 2) 2019-09**

Date of Grant 06/13/2019

Amount of Grant: \$45,000

Counties Served: Kentucky Power 20-County Service Territory

Kentucky Power issued a K-PEGG grant to Johnson County Pathway to Economic Development. This is the second grant and complements the grant funded last year. The program will be self-funding going forward.

K-PEGG grant funds were used to equip students in Johnson County schools with resources, such as computers, and to develop economic development classes. The classes will help prepare students for careers and certification in economic development.

In 2019, Johnson County Schools shared its model for JCPED with its partners in Kentucky Valley Educational Cooperative (KVEC). KVEC contains schools in Breathitt, Floyd, Johnson, Knott, Letcher, Magoffin, Owsley, Perry and Pike counties in the Kentucky Power Service territory.

JCPED and KVEC are working with 27 additional state educational departments, seven economic development agencies, seven federal, state and local government representatives, and a host of educators to replicate the JCPED model in other school districts in Kentucky Power's service territory.

KVEC and Johnson County Schools are in the process of applying for an Appalachian Regional Commission (ARC) Partnership for Opportunity and Workforce and Economic Revitalization (POWER) grant to sustain and expand the JCPED program.

- **Recipient: Ashland Alliance 2019-10**

Date of Grant 06/13/2019

Amount of Grant: \$46,250

Counties Served: Kentucky Power 20-County Service Territory

Kentucky Power issued a K-PEGG grant to Ashland Alliance for direct marketing of the region in partnership with One East Kentucky. The Ashland Alliance and One East Kentucky highlighted the regional workforce and competitive advantages of the region with the Kentucky Cabinet for Economic Development.

K-PEGG funding supported Ashland Alliance's direct, targeted marketing to new, expanding, and relocating companies at select trade shows with One East Kentucky and the Kentucky Cabinet for Economic Development.

Ashland Alliance contracted with a lead generation company to schedule 20 C-level (the executive level of a corporation) meetings with medium to large aerospace companies looking to expand or relocate. The contract put Ashland Alliance in contact with 30 companies who had an interest in learning more about the opportunities in the region.

K-PEGG funds also assisted Ashland Alliance to meet with an international leader in metal manufacturing equipment to discuss placing a national training center in Northeast Kentucky.

- **Recipient: Perry County Fiscal Court 2019-12**

Date of Grant: 07/24/2019

Amount of Grant: \$300,000

Counties Served: Perry County and surrounding 8-county region

Kentucky Power issued a K-PEGG grant to Perry County Fiscal Court to purchase and make necessary improvements to a formerly occupied manufacturing facility as an incentive for Dajcor Aluminum to locate in Perry County. Perry County will be contributing an estimated \$700,000 toward this project and required assistance from K-PEGG to fully fund the improvements.

The Dajcor Aluminum project was announced in May 2019.

- **Recipient: Perry County Fiscal Court 2019-13**

Date of Grant: 08/20/2019

Amount of Grant: \$175,000

Counties Served: Perry and surrounding counties

Kentucky Power issued a K-PEGG grant to Perry County Fiscal Court to complete Phase III (equipment and telecommunication) of a facility for a nursing school to address the shortage of nurses in southeastern Kentucky.

With the completion of the project, the Galen School of Nursing doubled the capacity of its program (40 to 80 students). The expansion of the Galen School of Nursing in Perry County addressed the need to fill 335 open nursing positions within a 50-mile radius of Hazard.

- **Recipient: City of Ashland 2019-14**

Date of Grant: 10/8/2019

Amount of Grant: \$22,500

Counties Served: Boyd, Greenup, Carter, Lawrence

Kentucky Power issued a K-PEGG grant to the City of Ashland to host Roger Brooks International, a consulting company specializing in downtown redevelopment planning for small cities, for an economic development education conference. It also was to fund an assessment of the community with a detailed report of improvements needed. The

information will be used in developing the Comprehensive Plan update for The City of Ashland.

K-PEGG grant funds also were used by the City of Ashland to facilitate community economic development education provided by Roger Brooks International. One hundred fifty people attended public forum. Meetings were held by key area stakeholders and professionals with Mr. Brooks to create an action plan with 65 recommended items for downtown redevelopment. The Destination Ashland Team was formed to facilitate the two-year plan.

Denied Requests

- **Paintsville/Johnson County Economic Development Authority 2019-07**
Requested \$150,000

Requested a K-PEGG grant to retain an engineer to complete a shovel-ready design for the Paintsville/Johnson County Economic Development Authority Sewer Expansion Project.

Denied: Paintsville/Johnson County Economic Development Authority did not have an option on the property at the time the application was reviewed.

- **Hillcraft Development Corp 2019-11**
Requested \$395,000

Requested a K-PEGG grant to establish a facility and program to begin construction and manufacturing projects that will supply transitional training for college graduates, displaced miners, unemployed and addiction recovery participants.

Denied: K-PEGG funding was the only source of funding for the project. The committee wanted to see other stakeholders and a plan for sustainability.

- **USA Drone Port 2019-15**
Requested \$86,500

Requested a K-PEGG grant to refurbish a 20-foot tall, 40 X 75 foot building to house 200 drones and allow for small aircraft indoor testing during inclement weather.

Denied: The Drone Port failed to demonstrate ownership of the property it was developing. The Committee may reconsider when evidence of ownership or right to occupancy by USA Drone Port is supplied.

**COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION**

In the Matter of:

The Application of Kentucky Power Company)
A General Adjustment Of Its Rates For)
Electric Service; (2) An Order Approving Its)
2014 Environmental Compliance Plan; An) Case No. 2014-00396
Order Approving Its Tariffs And Riders; And)
An Order Granting All Other Required Relief)
And Approvals)

**KENTUCKY POWER COMPANY'S MARCH 31, 2019 REPORTS
PURSUANT TO THE SETTLEMENT AGREEMENT IN CASE NO. 2014-00396**

Kentucky Power submits the annual report on the implementation of its Kentucky Economic Development Surcharge program ("KEDS") pursuant to Paragraph 10(c) of the Settlement Agreement pursuant to the Commission's June 22, 2015 Order in Case No. 2014-00396.

The Company's annual report on its Distribution System Vegetation Management Program was filed on March 29, 2019.

KENTUCKY ECONOMIC DEVELOPMENT SURCHARGE

Paragraph 10(c) of the Settlement Agreement requires:

Kentucky Power shall file on or before March 31, 2016, and each March 31st thereafter, a report with the Commission describing: (i) the amount collected through the Economic Development Surcharge; and (ii) the matching amount contributed by Kentucky Power from shareholder funds. The annual report to be filed by the Company shall also describe

the amount, recipients, and purposes of its expenditure of the funds collected through the Economic Development Surcharge and shareholder contribution.

The required information follows.

1. Funding

As described in the Company's March 31, 2016 filing, Kentucky Power created the Kentucky Power Economic Growth Grant ("K-PEGG") program to implement economic development activities funded through the Kentucky Economic Development Surcharge ("KEDS"). Kentucky Power maintains the K-PEGG program funds in a separate account. During calendar year 2018, Kentucky Power collected \$365,420 through the surcharge and contributed a matching \$365,420. In 2018, a total of \$730,840 was deposited in the K-PEGG program account.

As described in more detail below, the Company used K- PEGG program funds for \$576,856 in grants for economic development activities in its service territory.

2. Grant Activity

Kentucky Power considered a total of 20 grant applications in 2018. The Company issued 15 grants, denied four applications, and one application was withdrawn by the applicant. The K- PEGG grants issued during 2018 are described below:

- **Recipient: Pike County Fiscal Court**

Date of Grant: April 19, 2018

Amount: \$25,500

Counties Served: Pike County

Project Description: Kentucky Power issued a K-PEGG grant to Pike County Fiscal Court to hire a consultant to devise an implementation plan for county-wide broadband service. The County plans to expand on the success of the Teleworks hub and increase jobs in remote areas of the county. Teleworks USA hires customer service representatives that are able to work from the central hub or out of their homes. Pike County Fiscal Court intends to obtain matching funds through a grant from the Economic

Development Administration currently being processed. The total estimated cost of the project is \$85,000.

- **Recipient: One East Kentucky**

Date of Grant: March 16, 2018

Amount: \$50,000

Counties Served: Pike, Perry, Letcher, Floyd, Johnson, Martin, Lawrence, Morgan, Magoffin

Project Description: Kentucky Power issued a K-PEGG grant to One East Kentucky to support its economic development efforts in the Company's service territory. One East Kentucky is a 501(c)3 non-profit organization whose mission is to diversify the economy of the Eastern Kentucky Coal Fields region through recruitment of industry. The organization is entirely funded by non-governmental investment. The grant was used to recruit industry, develop marketing materials, support regional chambers of commerce, initiate regional economic development strategies, and enhance opportunities for industrial sites.

- **Recipient: City of Wayland**

Date of Grant: March 16, 2018

Amount: \$19,500

Counties Served: Floyd County

Project Description: Kentucky Power issued a K-PEGG grant to the City of Wayland to complete a feasibility study for establishing and maintaining high speed, affordable wireless broadband service in the City of Wayland. Utilizing data from the Eastern Telephone & Technology model developed for the City of Pikeville Wireless Broadband Project, the City of Wayland will need an estimated \$150,000 to bring a similar service to the city. High-speed broadband service brings opportunities of economic growth for existing businesses, as well as options for entrepreneurs and residents wishing to work from home.

- **Recipient: Aerospace Alliance of East Kentucky**

Date of Grant: March 16, 2018

Amount: \$50,000

Counties Served: Greenup, Boyd, Floyd, Johnson, Knott, Lawrence, Letcher, Magoffin, Martin, Perry, and Pike.

Project Description: Kentucky Power issued a K-PEGG grant to Aerospace Alliance of East Kentucky for direct marketing support to permit representatives of One East Kentucky and Ashland Alliance to attend the MRO (Maintenance Repair and Overhaul) Americas Conference and Tradeshow. The MRO Americas conference is the premier event for the commercial air transport maintenance repair and overhaul industry. Aerospace Alliance of East Kentucky hopes to build on past successes and promote eastern Kentucky to over 850 aerospace companies that attend the conference.

- **Recipient: One East Kentucky Corporation**

Date of Grant: March 16, 2018

Amount: \$55,375

Counties Served: Pike, Perry, Letcher, Floyd, Johnson, Martin, Lawrence, Knott and Magoffin

Project Description: Kentucky Power issued a K-PEGG grant to One East Kentucky Corporation to conduct a feasibility study by Boyette Strategic Advisors concerning the International Landing Zone project. The International Landing Zone project will serve as a foreign direct investment industrial incubator whereby One East Kentucky will meet with foreign companies that are looking to enter the U.S. market. The targeted foreign companies are those initially seeking smaller facilities between 10,000 to 30,000 square feet. One East Kentucky Corporation existing large industrial buildings in the counties served by One East Kentucky Corporation could provide necessary space for foreign investors.

- **Recipient: City of Hazard**

Date of Grant: March 12, 2018

Amount: \$50,000

Counties Served: Perry, Harlan, Breathitt, Leslie and Knot

Project Description: Kentucky Power issued a K-PEGG grant to the City of Hazard to be used as partial funding for a \$2,910,000 million project to extend a natural gas line to the Coal Fields Industrial Park and thereby make the industrial park more attractive to the automotive industry.

- **Recipient: Ashland Alliance**

Date of Grant: June 5, 2018

Amount: \$72,000

Counties Served: Boyd, Greenup, Floyd, Johnson, Knott, Lawrence, Magoffin, Martin, Perry, and Pike.

Project Description: Kentucky Power issued a K-PEGG grant to the Ashland Alliance for an East Kentucky Economic Development Gap Analysis, site meetings with clients that have expressed interest in expanding manufacturing facilities in northeastern Kentucky, and targeted recruitment opportunities that have opened up for both Ashland Alliance and One East Kentucky Corporation.

- **Recipient: Shaping Our Appalachian Region (SOAR)**

Date of Grant: June 4, 2018

Amount: \$25,000

Counties Served: Johnson, Boyd, Greenup, Carter, Lawrence, Martin, Magoffin, Floyd, Pike, Knott, Letcher, Perry, Leslie, Breathitt, Clay, Elliott, Lewis, Morgan, Owsley and Rowan.

Project Description: Kentucky Power issued a K-PEGG grant to Shaping Our Appalachian Region (SOAR) to help further local economic development strategies and assist in long-term growth of the area. This grant allowed SOAR to provide enhanced economic development education to facilitate site and building analysis, and to assist local communities in obtaining economic development consulting services.

- **Recipient: Appalachian Industrial Authority**

Date of Grant: June 4, 2018

Amount: \$35,000

Counties Served: Letcher County

Project Description: Kentucky Power issued a grant to the Appalachian Industrial Authority to construct a lift station, grinder pump, and gas line at Gateway Industrial Park near Jenkins in Letcher County. The infrastructure improvements are intended to encourage new businesses to locate in the park. The grant was intended to permit the retention and increase in jobs located at the park. This investment led to Hunt Brothers Pizza constructing a warehouse in the park.

- **Recipient: Hazard Perry County Economic Development Alliance**

Date of Grant: June 5, 2018

Amount: \$25,000

Counties Served: Perry, Harlan, Breathitt, Leslie and Knott

Project Description: Kentucky Power issued a K-PEGG grant to the Hazard Perry County Economic Development Alliance. The Hazard Perry County Economic Development Alliance was created to work in unison with One East Kentucky to market the five-county area by recruiting new industry, and helping existing industry and local businesses. It serves as the local focus of economic development. By recruiting and marketing the regional industrial park, Coal Field Regional Industrial Park, the five counties of Perry, Harlan, Breathitt, Leslie and Knott all benefit from development of the industrial park. The grant will serve as a supplement to the organization's annual budget requirements for the 2018-2019 budget cycle.

- **Recipient: KY Association of Economic Development (KAED)**

Date of Grant: July 31, 2018

Amount: \$20,000 per year for 3 years

Counties Served: Johnson, Boyd, Greenup, Carter, Lawrence, Martin, Magoffin, Floyd, Pike, Knott, Letcher, Perry, Leslie, Breathitt, Clay, Elliott, Lewis, Morgan, Owsley and Rowan.

Project Description: Kentucky Power issued a K-PEGG grant to the Kentucky Association of Economic Development (KAED). The Kentucky Cabinet for Economic Development (CED) has pledged that if KAED raises funding to hire a consultant to perform site evaluations, the Cabinet for Economic Development will provide \$9 million of funding over a three-year period for site and building investment.

- **Recipient: One East Kentucky**

Date of Grant: August 17, 2018

Amount: \$40,000

Counties Served: Floyd, Knott, Johnson, Lawrence, Letcher, Magoffin, Martin, Perry and Pike

Project Description: Kentucky Power issued a K-PEGG grant to One East Kentucky to implement a Customer Relationship Management (CRM) system to manage projects, follow-up and deliver reporting to the board, investors and AEP Kentucky Power Economic Development representatives. The CRM system will allow for better and more consistent follow-up, leading to tangible results of new job and facility locations.

- **Recipient: Big Sandy Regional Airport Board**

Date of Grant: October 8, 2018

Amount: \$64,481

Counties Served: Martin, Floyd, Knott, Johnson, Lawrence, Magoffin and Pike

Project Description: Kentucky Power issued a K-PEGG grant to the Big Sandy Regional Airport Board to conduct a feasibility study regarding the construction of a 10,000 ft. runway at the Big Sandy Regional Airport in Martin County. This project is vital to meeting the explicit needs of Kentucky's growing aerospace industry and for the future success of many business incentive initiatives and industry recruitment efforts for east Kentucky.

- **Recipient: Johnson Co Pathway to Economic Development**

Date of Grant: October 8, 2018

Amount: \$45,000

Counties Served: Johnson, Boyd, Greenup, Carter, Lawrence, Martin, Magoffin, Floyd, Pike, Knott, Letcher, Perry, Leslie and Breathitt

Project Description: Kentucky Power issued a K-PEGG grant to the Johnson County Board of Education to fund the Johnson County Pathway to Economic Development. The grant will be used to provide high school students with economic development training and resources to promote students interested in pursuing a career in economic development. The program was implemented beginning with the 2018-2019 school year.

- **Recipient: eKentucky Advanced Manufacturing Institute (eKAMI)**

Date of Grant: December 13, 2018

Amount: \$125,000

Counties Served: Boyd, Floyd, Greenup, Johnson, Knott, Lawrence, Letcher, Magoffin, Martin, Perry and Pike.

Project Description: Kentucky Power issued a K-PEGG grant to the eKentucky Advanced Manufacturing Institute. eKAMI is located in Paintsville, Kentucky and provides training for new manufacturing jobs for former coal miners. The grant will be utilized for the start-up of an Apprenticeship Program in conjunction with the HAAS Computer Numerical Control (CNC) Machinist program provided at eKAMI. Participants will conduct apprenticeship work in off-hours at the facility to gain real-world experience by completing production runs of parts with eKAMI equipment. Contracts between eKAMI and Manufacturers will be obtained for production work to be completed.

Kentucky Power Company
KPSC Case No. 2023-00159
Commission Staff's Fifth Set of Data Requests
Dated October 6, 2023

DATA REQUEST

KPSC 5_2 Refer to Kentucky Power's response to Commission Staff's Second Request, Item 30. Provide the referenced preferred plan from Case No. 2023-00092 regarding the proposed retirement date for Big Sandy 1.

RESPONSE

Please see KPCO_R_KPSC_5_2_Attachment1, which is comprised of the portion of the Company's pending IRP Report filed in Case No. 2023-00092 that contains the requested information. Details of the Preferred Plan are summarized as follows:

- 480 MW frame CT build added in 2029;
- Renewable and intermittent resource including 700 MW of new wind and 800 MW of new solar, along with 50 MW of storage by 2037;
- Continued operation of the Big Sandy gas unit to 2041;
- Short-Term Market Purchases (STMP) up to 78 MW annually through 2026 and 407 MW in 2028 to fully satisfy near-term adequacy;
- Summer peak contribution from demand-side resources of 3 MW in 2023, rising to a peak of 48 MW in 2034 before declining to 46 MW by 2037; and
- Mitchell coal unit leaves the portfolio after 2028.

Witness: Brian K. West

7.5 Preferred Plan

The IRP Scorecard does not select a Preferred Plan (PP) on its own, rather it provides a way of systematically comparing how each of the portfolios perform across the four IRP objectives. Each resource portfolio considered in the 2022 IRP represents a trade-off between the objectives defined by Kentucky Power. The CETA portfolio, for example, provides the greatest level of seasonal reliability, but has the highest expected short-term costs to customers. Meanwhile, the ECR portfolio has the most positive local and sustainability impacts, but has low rankings in reliability, rate stability, and long-term cost. The purpose of the Scorecard is to provide Kentucky Power management with a tool that illustrates these trade-offs and enables the selection of the best path forward for Kentucky Power's customers and stakeholders.

After consideration of the portfolio needs and risks, Kentucky Power identified a PP that is informed by the scorecard results, scoring competitively across all scorecard elements and provides a "least regrets" portfolio for the near and mid-terms. The objective of the PP was to strike a balance of reliability, affordability, and sustainability for customers without overreliance on any one resource while also providing optionality to Kentucky Power for the type and timing of resources based on future RFP results. The PP includes a combination of supply- and demand-side resources to meet Kentucky Power's future customer needs. The portfolio maintains affordable and stable rates for Kentucky Power customers, is expected to maintain reliability across seasons, provides sufficient capacity to meet PJM obligations and allow for some margin of uncertainty in the future related to these obligations, and creates opportunities for local development all while significantly reducing greenhouse gas emissions. The rest of this section will review the detailed outputs of the PP and discuss its performance relative to the other portfolios considered as part of the 2022 IRP.

7.5.1 Details of the Preferred Plan

The Preferred Plan pre-selects the 480 MW frame CT build identified in the optimized portfolios along with the renewable and intermittent resource selections from the CC portfolio represented by 700 MW of new wind and 800 MW of new solar, along with 50MW of storage by 2037. The Preferred Plan also includes the extension of the Big Sandy gas unit to 2041. Short-Term Market Purchases (STMP) are utilized with up to 78 MW annually through 2026 and 407 MW in 2028 to fully satisfy near-term adequacy.

On the demand side, the summer peak contribution from incremental demand-side resources is 3 MW in 2023, rising to a peak of 48 MW in 2034 before declining to 46 MW by 2037. Details of the annual capacity additions in the PP are displayed in Figure 80 and annual energy position in Figure 81 below.

Utility Scale Incremental New Build (Nameplate MW)									Demand Side Additions by Year (MW)	
Year	Gas CT	Gas CC	Solar (T1.T2)	Wind (T1.T2)	Li-Ion 4hr Battery Storage	Solar + Storage	Big Sandy Extension	Capacity Purchase	Year	DSM Programs
2023								73	2023	3
2024								78	2024	8
2025								78	2025	14
2026				100				78	2026	24
2027			250	100/100					2027	32
2028			150/300	100/100				407	2028	38
2029	480		100						2029	43
2030				100					2030	47
2031				100			295		2031	47
2032									2032	48
2033									2033	48
2034									2034	48
2035					50				2035	48
2036									2036	47
2037									2037	46
Total	480	0	800	700	50	0	295			

Figure 80. Annual Capacity Additions in the 2022 IRP Preferred Plan

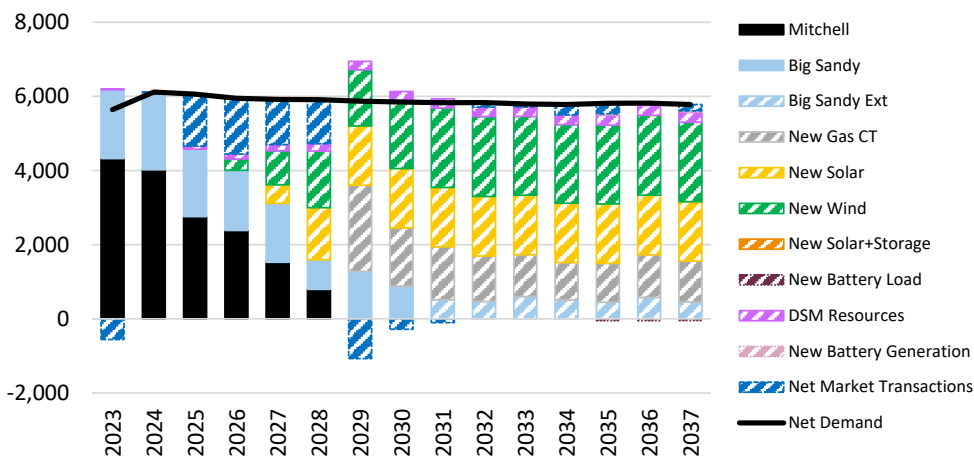


Figure 81. Kentucky Power Annual Energy Position (GWh) under Preferred Plan

Under the Preferred Plan, the Mitchell coal unit leaves the portfolio in 2028, while operations at the Big Sandy gas unit are extended to 2041. On the demand side, Kentucky Power projects approximately 48 MW of demand-side resources between 2023 and 2030. In addition to demand-side programs, Kentucky Power proposes to add 800 MW of new solar, 700 MW of new

wind, and 50MW of storage by 2037. All of the solar and wind resources are added in the 2026-2031 time frame to take advantage of the production tax credit and contribute to accredited capacity replacement. The Preferred Plan also proposes to add 480 MW of new gas CT in 2029 as the Mitchell coal unit leaves the portfolio. The Preferred Plan relies on market capacity purchases through 2026 and again in 2028 to bridge shortfalls as Kentucky Power works to acquire firm resources.⁴⁸

The Preferred Plan is informed by an analysis of the optimized portfolios discussed in section 7.3 to meet PJM minimum reserve margins given assumptions about resource availability and constraints on portfolio energy sales. However, this plan is based on an uncertain future regarding events that can impact the Company's capacity position, including uncertainty around intermittent resource availability, their contribution to reserve margins, load growth, new environmental and tax policy, and existing unit performance. The Preferred Plan includes resources to meet the Company's current PJM capacity obligations while allowing for optionality if customers' capacity and energy needs requirements change. This includes a natural gas resource, currently identified as a natural gas combustion turbine in place of a combined cycle unit. The analyses of portfolios with NGCTs vs. NGCCs were similar in costs although the NGCT portfolio scored better in several non-cost scorecard metrics, including, in part, an increased capacity towards the Company's minimum PJM capacity obligation. The final decision to select a natural gas resource that is critical to the portfolio will be subject to results of an all-source RFP and analysis. Consequently, the Company will continue to evaluate its capacity position relative to these risks and may consider adding additional resources to the Plan in the future to ensure a capacity position in compliance with PJM's capacity reserve requirements. Furthermore, the Preferred Plan provides Kentucky Power flexibility and optionality with respect to uncertainty related to winter capacity needs. As described in section 7.3.2, a portfolio optimized to meet winter peak would add to the foundational gas and renewable resources already included in the Preferred Plan, providing the potential to integrate incremental storage resources to satisfy adequacy requirements.

⁴⁸ Depending on the results of the RFP, the Company may pursue different quantities or types of resources from those identified in the Preferred Plan.

7.5.2 The Preferred Plan Best Achieves Kentucky Power's IRP Objectives

Introduction

For this IRP, seven portfolios were analyzed which informed the Company's identification of its Preferred Plan. The complete Scorecard with the Preferred Plan is shown below in Figure 82. A discussion of the Preferred Plan scorecard metrics follows.

Portfolio	Customer Affordability		Rate Stability			Maintaining Reliability			Local Impacts & Sustainability	
	Short Term: 5-yr Cost CAGR, Reference Case	Long Term: 15-yr CPW, Reference Case	Scenario Range: High Minus Low Scenario Range, 15-yr CPW	Cost Risk: RR Increase in Reference Case (95th minus 50 th Percentile)	Market Exposure: Net Sales as % of Portfolio Load, Scenario Average	Planning Reserves: % Reserve Margin, Scenario Average	Operational Flexibility: Dispatchable Capacity	Resource Diversity: Generation Mix (MWh) by Technology Type - Reference Case	Local Impacts: New Nameplate MW & Total CAPEX Installed Inside Service Territory	CO2 Emissions: Percent Reduction from 2005 Baseline - Reference Case
Year Ref.	2023-2028	2023-2037	2023-2037	2037	2037	2023-2037	2027 2037	2037	2023-2037	2027 2037
Units	%	\$MM Levelized Rate	\$MM Levelized Rate	\$MM	Summer Winter	Summer Winter	MW	%	MW \$MM	% Reduction
Reference Portfolio	7.52	3,395 \$62.1	438 \$8.9	77.6	14% 30%	11.3% -22.7%	1,111 775		893 1,146	74% 90%
Reference - High Cost Portfolio	8.53	3,435 \$62.3	432 \$8.7	72.2	10% 26%	10.6% -23.1%	1,111 775		855 1,134	74% 90%
CETA Portfolio	9.16	3,504 \$64.0	565 \$11.6	87.1	31% 39%	20.2% -19.9%	1,111 825		1,205 1,511	74% 90%
ECR Portfolio	8.21	3,605 \$65.6	886 \$15.1	95.8	28% 26%	3.4% -37.4%	1,111 490		1,465 1,942	74% 96%
NCR Portfolio	7.91	3,517 \$64.1	497 \$13.3	37.9	-25% -20%	10.2% -20.8%	1,111 925		855 1,067	74% 90%
CC Portfolio	8.78	3,516 \$64.6	430 \$9.3	56.8	24% 21%	10.7% -26.5%	1,111 763		993 1,528	74% 86%
No Wind Portfolio	7.65	3,755 \$68.4	684 \$12.6	48.9	5% -45%	10.6% -37.1%	1,111 660		1,178 2,088	74% 94%
Preferred Plan	8.81	3,522 \$64.8	501 \$9.4	58.3	6% 0%	14.6% -23.5%	1,111 825		1,055 1,355	74% 90%

Figure 82. 2022 IRP Scorecard Preferred Plan Results

Note - Levelized Rates and CPW metrics are for generation component only. Metrics are for comparison only and do not represent the final costs which will apply to ratepayers

7.5.2.1 Customer Affordability

When measured against the customer affordability objective, the Preferred Plan is among the most affordable resource plans evaluated in the 2022 IRP. In the short-term, costs rise relatively sharply compared to most other portfolios in order to support the substantial renewable development program. In the long-term, the Preferred Plan is near the mid-tier in terms of overall cost, and within a half-percent of the three next lowest cost plans evaluated in the 2022 IRP. The Preferred Plan is within \$127 million in CPW or about \$2.70/MWh in levelized rates of the lowest cost plan, representing about a 3.6% increase. Two portfolios evaluated are more than \$83 million higher under the 15-year CPW, so the Preferred Plan serves to protect customers from higher costs seen in some of the other portfolios.

7.5.2.2 Rate Stability

When measured against the rate stability objective, the Scenario Range metric shows that expected costs under the Preferred Plan varied by near average levels across the fundamental market scenarios when compared to other plans. The cost risk measure shows that the Preferred Plan is able to withstand price and renewable output volatility nearly as well as those plans ranked at the top of this category. The Preferred Plan has more cost risk than the NCR, CC, and No Wind portfolios, but lower cost risk than the Reference, REF-HC, ECR, and CETA portfolios. The Preferred plan was among the lowest-risk portfolios in 2037.

The seasonal market exposure of the Preferred Plan is limited with only a 6% net sales position needed to balance customer loads during summer, and no net exposure during winter. The Preferred Plan performs best of all portfolios on this metric.

7.5.2.3 Maintaining Reliability

In the Planning Reserves metric, the Preferred Plan performs adequately to maintain a greater than 9% reserve margin in both the summer and winter seasons. While PJM currently only enforces summer planning requirements, it is possible a seasonal requirement could be implemented in the future. The Preferred Plan has the highest planning reserves of all portfolios except CETA, which is optimized under higher native load conditions.

The Preferred Plan has operational flexibility rankings second only to the NCR portfolio, tied with CETA and ranking better than all others.

The resource diversity indicator shows the Preferred Plan ranks highest in terms of generation diversity. Most portfolios have a high concentration in either wind or solar although the Preferred Plan has roughly similar quantities of wind, solar, and gas generation, helping it score well based on this metric.

7.5.2.4 Local Impacts & Sustainability

The Preferred Plan scores near the middle of the pack on the Local Impact indicator when compared to the other portfolio alternatives. The MW installed are the fourth highest behind ECR, CETA, and No Wind portfolios, while the dollar investment in the Kentucky Power territory is fifth highest. Since new resources have yet to be selected or sited, an action item in the three-year plan is to refine estimates for resources that can be integrated into the Kentucky Power territory.

In the Sustainability metric, the Preferred Plan puts Kentucky Power on a pathway for significant CO₂ emissions relative to the 2005 baseline. By 2037, all plans are on track to achieve reductions around 90% relative to the 2005 baseline. In the Preferred Plan, Kentucky Power would seek opportunities for further reduction or offset during the 2040s.

7.5.3 Estimated Bill Impacts of the Preferred Plan

The Company compared the estimated bill impact of the Preferred Plan, which includes the continued operation of Big Sandy through 2041. All portfolios modeled included significant investments in natural gas, solar and wind resources, and energy efficiency savings. To estimate the bill impact of the Preferred Plan over the planning period, the Company compared the total annual cost and sales of electricity (kWh) of the lowest cost plan, Reference Plan and the Preferred Plan. This calculated estimate assumed an average residential usage/month of 1,229 kWh and does not take into consideration rate design or differences in customer classes. The Company also assumed that transmission and distribution related costs will be incurred at the same rate under all plans, and therefore have no impact to the calculation of bill impacts comparing plans. Keep in mind that the cost assumptions used in this comparison are indicative in nature in that any investment decision and the associated rate changes are subject to regulatory approval.

For purposes of this comparison, the annual net cost from the PERFORM model was divided by the Kentucky Power load, net of energy efficiency savings to get a cost per kilowatt-hour. The PERFORM model annual costs include the incremental fixed and all variable costs of the Company's generation resources, the incremental costs related to capital spending on new generation resources, EE Programs, a credit for the revenue received from the PJM market for the energy produced, and the cost of energy from PJM to serve the Company's load. In equation form, this looks like:

$$\begin{aligned} \text{Net Cost} &= \text{Energy Requirement (Load)} * \text{PJM Market Energy Cost} \\ &+ \text{Incremental Fixed and All Variable Costs from Kentucky Power's existing and} \\ &\quad \text{new Generation Resources} \\ &+ \text{Carrying cost on capital} \\ &+ \text{Cost of EE Programs} \\ &- \text{PJM Market Energy Revenues (including credit for energy savings from EE)} \end{aligned}$$

As stated earlier, the monthly bill for all portfolios increased. When comparing the increased bill impact between the Reference portfolio and Preferred Plan, the Preferred Plan realizes a slightly higher increase in 2027 and 2028 compared to the Reference portfolio due to the

increased investment in more solar resources. After increases through 2028, the difference in rate impacts in future years of the Preferred Plan declines to approximately \$3.30/month through 2034.

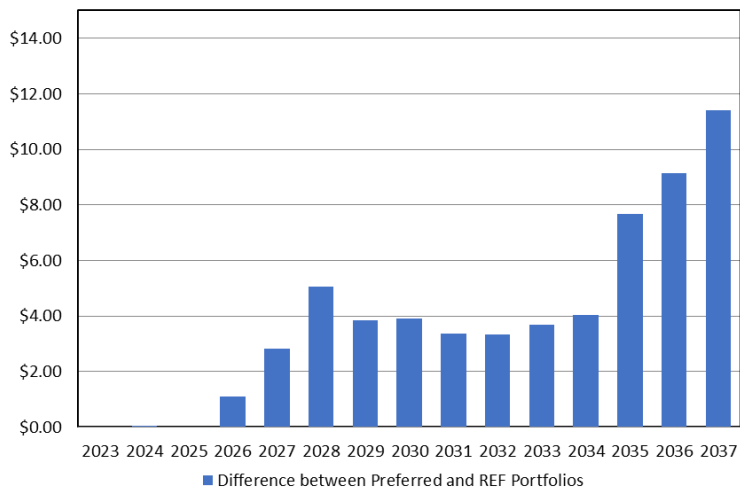


Figure 83. Bill Impacts (\$/Month) of Preferred Plan Compared to Reference Portfolio

7.5.4 Rate Impacts of the Preferred Plan

The average “real” rate per kWh expected to be paid by Kentucky Power customers from 2023 to 2037 that results directly from the costs and energy consumption impacts associated with the Preferred Plan is shown in Table 23 below. As previously stated, Kentucky Power does not expect to add any major new baseload generation during this period; however, renewable projects, new EE programs, and peaking unit additions will require investments and/or purchase obligations. On a real (2023) dollar basis as reflected in Table 23, this Preferred Plan is anticipated to result in relatively steady customer-estimated rates. These projected rates show Kentucky Power’s projected success in mitigating the impact of carbon regulation on customer rates through its development of a well-diversified, renewable-centric portfolio.

Table 23. Approximate Rate Impacts of Preferred Plan

Year	Nominal (\$/kWh)	Real (\$2023/kWh)
2023	\$0.165	\$0.165
2024	\$0.170	\$0.166
2025	\$0.171	\$0.164
2026	\$0.172	\$0.161
2027	\$0.178	\$0.163
2028	\$0.190	\$0.171
2029	\$0.196	\$0.174
2030	\$0.198	\$0.173
2031	\$0.196	\$0.168
2032	\$0.193	\$0.163
2033	\$0.192	\$0.158
2034	\$0.190	\$0.154
2035	\$0.191	\$0.152
2036	\$0.190	\$0.149
2037	\$0.196	\$0.150

* Note: The rate impacts presented in this table do not consider the prospect of increases in Kentucky Power's transmission and distribution-related costs over this period, as well as increases in base generation-related costs not uniquely incorporated into the planning/modeling process.

8.0 Conclusion

Kentucky Power selected the Preferred Plan for the 2022 IRP because it best meets the objectives of providing affordable, reliable electricity for customers while also maintaining rate stability and achieving excellent sustainability performance. The Preferred Plan scored competitively across all scorecard elements and provides a “least regrets” portfolio for the near and mid-terms without an overreliance on any one resource while also providing optionality to Kentucky Power for the type and timing of resources based on future RFP results.

8.1 Plan Summary

Figure 84 summarizes the additions to the Kentucky Power portfolio over the 2023-2037 time period under the Preferred Plan. It shows how a combination of new supply- and demand-side resources meets expected customer needs and maintains or exceeds the 9% planning reserve margin required by PJM. The Preferred Plan retains the 295 MW Big Sandy gas unit for an additional 10 years past the original retirement date, adds 480 MW NGCT, 800 MW of new solar PV, 700 MW of new wind, 50 MW of stand-alone storage, and adds energy efficiency resources over the next 15 years.

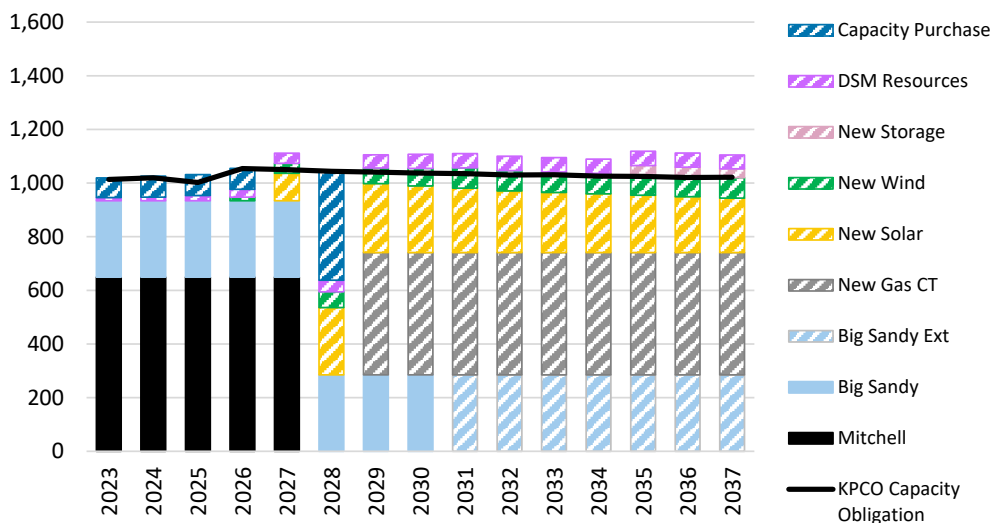


Figure 84. Kentucky Power Annual PJM Capacity Position under Preferred Plan (MW-UCAP)

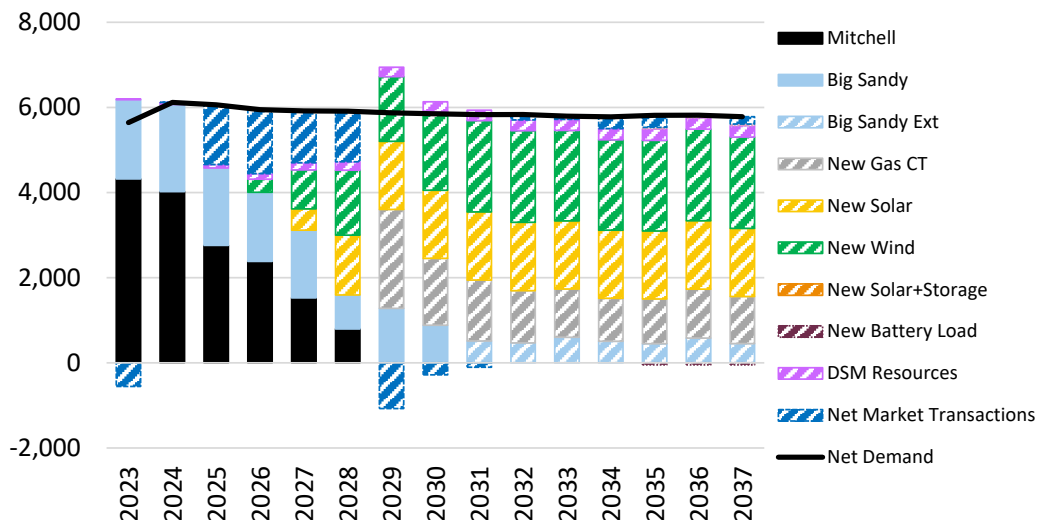


Figure 85. Kentucky Power Annual Energy Position under Preferred Plan (GWh)

8.2 Three-Year Action Plan

Steps to be taken by Kentucky Power in the near future as part of its Three-Year Action Plan include:

1. Pursue economic development opportunities to increase and diversify its industrial and commercial load.
2. Initiate an All-Source Request for Proposal (RFP) to add cost-effective market capacity purchases and firm resources in the near future.
3. Further examine opportunities to increase cost effective levels of EE in alignment with the Preferred Plan.
4. Monitor this action plan and future IRPs to address changing circumstances.
5. Seek to refine cost estimates and develop plans for a Big Sandy life extension.

Kentucky Power Company
KPSC Case No. 2023-00159
Commission Staff's Fifth Set of Data Requests
Dated October 6, 2023

DATA REQUEST

KPSC 5_3 Refer to Kentucky Power's response to Staff's Second Request, Item 99(a), in which Kentucky Power stated incorrect late payment charges for customers was \$26,391.44. Also refer to Kentucky Power's response to Commission Staff's Third Request for Information (Staff's Third Request), Item 9, in which Kentucky Power stated \$69,749.80 in late payment charges were assessed from January 13, 2021, until December 31, 2021. Explain the discrepancy between these two responses.

RESPONSE

The discrepancy is due to different source information used to respond to each request. For Staff's Second Request, Item 99(a), the source information used to determine the \$26,391.44 was pulled directly from customers' bills. For Staff's Third Request, Item 9, the source information used was the Company's ledger. In the case of a Delayed Payment Charge, the charge would show on the customer's bill on the day the bill is issued to the customer and be counted for the Staff's Second Request response, but the ledger would not show the charge until after the customer's bill due date.

Witness: Scott E. Bishop

Kentucky Power Company
KPSC Case No. 2023-00159
Commission Staff's Fifth Set of Data Requests
Dated October 6, 2023

DATA REQUEST

KPSC 5_4 Refer to Kentucky Power's response to the Attorney General of the Commonwealth of Kentucky, through his Office and Rate Intervention and Kentucky Industrial Utility Customers, Inc.'s Joint First Request for Information, Item 18. Provide the most recent Decommissioning Rider and Purchase Power Adjustment calculation spreadsheets filed in Case No. 2020-00174.

RESPONSE

Please see KPCO_R_KPSC_5_4_Attachment1 for the Company's most recent Purchase Power Adjustment calculation spreadsheet filed on August 15, 2023 in the post case correspondence of 2020-00174.

Please see KPCO_R_KPSC_5_4_Attachment2 through KPCO_R_KPSC_5_4_Attachment5 for the Company's most recent Decommissioning Rider calculation spreadsheets filed on August 15, 2023 in the post case correspondence of 2020-00174.

Witness: Lerah M. Kahn

Kentucky Power Company
KPSC Case No. 2023-00159
Commission Staff's Fifth Set of Data Requests
Dated October 6, 2023

DATA REQUEST

KPSC 5_5 Refer to Kentucky Power's response to Joint Intervenor's First Request, Item 29(a). Provide the Institute of Electrical and Electronic Engineers (IEEE) 1366 Standard.

RESPONSE

Please see KPCO_R_KPSC_5_5_ConfidentialAttachment1 for a copy of the current IEEE 1366 Standard.

Witness: Everett G. Phillips

KPCO_R_KPSC_5_5_PublicAttachment1 has been redacted in its entirety

Kentucky Power Company
KPSC Case No. 2023-00159
Commission Staff's Fifth Set of Data Requests
Dated October 6, 2023

DATA REQUEST

KPSC 5_6 Refer to the Direct Testimony of Michael Spaeth (Spaeth Direct Testimony), Exhibit MMS-1, pages 32–34. Provide the capacity rates that would result from using the National Renewable Energy Laboratories' Annual Technology Baseline as the cost of a proxy unit.

RESPONSE

Please see KPCO_R_KPSC_5_6_Attachment1 for the requested information.

Witness: Michael M. Spaeth

Kentucky Power Company
KPSC Case No. 2023-00159
Commission Staff's Fifth Set of Data Requests
Dated October 6, 2023
Page 1 of 2

DATA REQUEST

KPSC 5_7 Refer to Kentucky Power's response to Commission Staff's Third Request for Information (Staff's Third Request), Item 17 and KRS 278.110, which states that the Commission may employ employees to conduct an examination to perform the duties and exercise the powers conferred by law upon the Commission. Additionally, refer to Commission regulation 807 KAR 5:001, Section 4(12)(b), which states that Commission Staff may request information from any party to a case on the Commission's behalf (emphasis added). Finally, refer to Case No. 2011-00433, which addresses Commission Staff's role in cases before the Commission: "We remind the parties that Commission Staff is not a party to this proceeding. The task of the Staff is to conduct investigations to facilitate a thorough exploration of the interests and issues involved. The traditional role of the Commission Staff is 'generally to analyze the evidence and advise the Commission.'" Provide the specific documents requested. The response was not responsive.

- a. Confirm that Kentucky Power will continue each of the listed programs if the Distribution Reliability Rider (DRR) is denied. If not, explain why not.
- b. If the DRR is approved, list each program listed that Kentucky Power will continue.
- c. Provide a table showing the historical expenses for each listed program for the last five years and an estimate of the projected expenses for the next three years.

RESPONSE

Pages 19-20 of Company Witness Phillips' Direct Testimony identify the Company's existing Distribution Asset Management programs, which are part of the Company's

Kentucky Power Company
KPSC Case No. 2023-00159
Commission Staff's Fifth Set of Data Requests
Dated October 6, 2023
Page 2 of 2

Distribution Reliability Programs. The existing Distribution Asset Management programs include:

- the existing Overhead Circuit and Underground Facilities Inspection and Maintenance Program,
- the existing Capacitor and Regulator Inspection and Maintenance Program,
- the existing Recloser Maintenance/Replacement Program, and
- the existing Overhead Conductor Program.

As the Company explained in its response to Staff's Third Request, Item 17, no aspect of the existing Distribution Asset Management programs is included in the Company's proposed DRR Plan. KPSC 3-17 conditionally directed the Company, if the foregoing existing Distribution Asset Management programs were included in the DRR to "provide a table showing the historical expenses for each program for the last five years and an estimate of the projected expenses for the next three years and how each of the programs fit into the DRR projected projects." Because the Company explained that no aspect of the existing Distribution Asset Management programs is included in the Company's DRR, the Company did not understand that a further response to KPSC 3-17 was required.

a-b. Kentucky Power will continue each of the Distribution Asset Management programs identified above regardless of whether the DRR is approved or denied. As explained above and on pages 19-27 of Company Witness Phillip's Direct Testimony, the referenced Distribution Reliability Programs are separate and distinct from the proposed DRR, and no aspect of them is included in the proposed DRR. Stated differently, the Distribution Reliability Programs are not part of the DRR, or vice versa.

c. Please see KPCO_R_KPSC_5_7_Attachment1 for the information requested.

Witness: Everett G. Phillips

5 Year Historical Distribution Programs (Separate and Distinct from DRR)

Programs	Project #	2018		2019		2020		2021		2022	
		Capital (000s)	O&M (000s)	Capital (000s)	O&M (000s)	Capital (000s)	O&M (000s)	Capital (000s)	O&M (000s)	Capital (000s)	O&M (000s)
1. Overhead Circuit and Underground Facilities Inspection and Maintenance Program	EDN100577 KYCIRINSP	999	393	1,230	502	1,017	475	583	344	636	412
2. Capacitor and Regulator Inspection and Maintenance Program	EDN100101 EDN100100	0	72	0	121	0	67	0	52	0	61
3. Recloser Maintenance / Replacement Program	EDN100099 EDN014720	1,109	97	1,182	99	709	124	607	57	704	85
4. Overhead Conductor Program	EDN015042	383	25	460	6	903	42	779	46	361	5
TOTAL		2,491	587	2,872	728	2,629	708	1,969	499	1,701	563

3 Year Forecasted Distribution Programs (Separate and Distinct from DRR)

Programs	Project #	2023		2024		2025	
		Capital (000s)	O&M (000s)	Capital (000s)	O&M (000s)	Capital (000s)	O&M (000s)
1. Overhead Circuit and Underground Facilities Inspection and Maintenance Program	EDN100577 KYCIRINSP	405	648	676	1,098	644	1,106
2. Capacitor and Regulator Inspection and Maintenance Program	EDN100101 EDN100100	0	103	0	234	0	235
3. Recloser Maintenance / Replacement Program	EDN100099 EDN014720	1,223	89	1,202	140	1,159	141
4. Overhead Conductor Program	EDN015042	324	1	770	0	0	0
TOTAL		1,952	841	2,648	1,472	1,803	1,482

Kentucky Power Company
KPSC Case No. 2023-00159
Commission Staff's Fifth Set of Data Requests
Dated October 6, 2023

DATA REQUEST

KPSC 5_8 Refer to Kentucky Power's response to Staff's Third Request, Item 42.
Provide the supporting calculations used to arrive at the subscription rates
for the Renewable Power Option Rider.

RESPONSE

The Company took the average of the forward 2024 and 2025 prices for National Wind and Solar RECs provided in response to Staff 3-42 and added a risk premium to account for market volatility to price all three program options. Proposed RPO Price = Forward REC Curve Average + Volatility Premium.

Witness: Alex E. Vaughan

Kentucky Power Company
KPSC Case No. 2023-00159
Commission Staff's Fifth Set of Data Requests
Dated October 6, 2023

DATA REQUEST

KPSC 5_9 For residential customers who are disconnected for non-payment, provide a detailed timeline of events from issuance of the bill to disconnection of service under the procedures in Kentucky Power's current tariff.

RESPONSE

Bills issued under the Company's residential tariffs currently are due and payable within 15 days after their mailing date. If a customer does not remit payment by the applicable deadline, the unpaid balance becomes past due. Termination notices generate the day after a new monthly bill is issued for customers who have a past due balance and are eligible for termination. This timeframe allows on average 30 days following the original bill issue date before a termination notice is generated. In no instance is service terminated for nonpayment of bills less than 27 days after the bill issue date. The termination notice provides fifteen (15) calendar days from the date the notice is issued before service termination. Termination notices are mailed separately from the monthly bill and identify both the past due balance owed and the total account balance.

Witness: Stevi N. Cobern

Kentucky Power Company
KPSC Case No. 2023-00159
Commission Staff's Fifth Set of Data Requests
Dated October 6, 2023

DATA REQUEST

KPSC 5_10 For residential customers who are disconnected for non-payment, provide a detailed timeline of events from issuance of the bill to disconnection of service under the procedures in Kentucky Power's proposed tariff.

RESPONSE

The Company understands this question to relate to its request to extend the number of days between the monthly billing date and bill due dates from 15 days to 21 days. As discussed in response to Staff's Fifth Request, Item 9, termination notices are mailed separately and generate the day after a new monthly bill is issued for customers who have a past due balance and are eligible for termination. This process will remain the same, as a change in the bill due date does not change the date a new bill issues.

Witness: Stevi N. Cobern

Kentucky Power Company
KPSC Case No. 2023-00159
Commission Staff's Fifth Set of Data Requests
Dated October 6, 2023

DATA REQUEST

KPSC 5_11 Refer to Kentucky Power's response to Commission Staff's Fourth Request for Information (Staff's Fourth Request), Item 6. Confirm that Kentucky Power will describe the securitized bonds to investors as corporate securities.

RESPONSE

So long as there are no changes in law or policy at the SEC or Bloomberg that would prohibit Kentucky Power's ability to describe the securitized bonds, Kentucky Power will describe the bonds as corporate securities.

Witness: Katrina Niehaus

Witness: Franz D. Messner

Kentucky Power Company
KPSC Case No. 2023-00159
Commission Staff's Fifth Set of Data Requests
Dated October 6, 2023

DATA REQUEST

KPSC 5_12 Refer to the Spaeth Direct Testimony pages 21–22 and Exhibit MMS-4. Also refer to the Application, Exhibit 5, Proposed Financing Order; Kentucky Power's response to Staff's Fourth Request, Items, 9, 11, and 19(b).

a. Confirm that Kentucky Power proposes to set and adjust securitized surcharges based on Revenue forecasted to be billed during the next payment period(s), not based on forecasted deliveries of electricity during the next payment period(s). If not confirmed, explain.

b. Confirm that Findings of Fact 49, 52, 53(d) and Appendix A of the proposed Financing Order must be revised to reflect that securitized surcharges will be based on revenue forecasted to be billed during the next payment period(s), not based on forecasted deliveries of electricity during the next payment period(s). If not confirmed, explain.

RESPONSE

a. As stated in the Direct Testimony of Company Witness Spaeth, page 21 lines 6 through 13, "The residential allocation will be based on the most recent 12-month residential contribution to Kentucky retail revenue and the all other allocation will be based on the most recent 12-month all other class contribution to Kentucky retail revenue. The SFR actual revenue requirement will be multiplied by the annual residential, and all other, allocation to arrive at the net residential, and all other, revenue requirements. These amounts are then divided by the annual Kentucky residential retail revenue to calculate the residential factor and by all other classes non-fuel retail revenue to calculate the all other adjustment factor.

b. Not confirmed. The revenue forecasted to be billed is considered a "forecasted billing unit" which serves as the denominator in the rate calculation under the proposed SFR.

Witness: Michael M. Spaeth

Witness: Katrina Niehaus

Kentucky Power Company
KPSC Case No. 2023-00159
Commission Staff's Fifth Set of Data Requests
Dated October 6, 2023

DATA REQUEST

KPSC 5_13 Refer to the Application, Exhibit 5, Proposed Financing Order, Section 5. Using the two definitions of revenues in Section 5 of the Securitization Financing Rider, provide the following information about Kentucky Power Company's annual forecast variance for revenues billed to retail customers for each calendar year 2013 through 2022, which each customer class provided separately:

- a. Forecasted billed revenues.
- b. Actual billed revenues.
- c. Variance percentage.

RESPONSE

a.-c. The Company forecasts on a revenue class basis, not a customer class basis. Please see KPCO_R_KPSC_5_13_Attachment1 which contains forecasted and actual fuel and non-fuel revenues for Kentucky Power Company, as well as a variance percentage for the years 2013-2021. In anticipation of the sale of Kentucky Power in 2022, the Company did not produce a forecast for the entire year. The Company does not forecast revenues in a way that allows for the revenue components specified in the Securitization Financing Rider as defined in Exhibit 5, Proposed Financing Order, Section 5 to be aggregated as such.

Witness: Brian K. West

Kentucky Power Company
KPSC Case No. 2023-00159
Commission Staff's Fifth Set of Data Requests
Dated October 6, 2023

DATA REQUEST

KPSC 5_14 Explain what principles Kentucky Power will use to determine whether any new billing component imposed on retail customers of Kentucky Power after the Financing Order is adopted will be treated as revenues for purposes of the Securitization Financing Rider.

RESPONSE

To the extent any new riders are added that are not a percent of revenue rider, they should be considered for inclusion in the SFR rate calculation.

Witness: Brian K. West

Witness: Michael M. Spaeth

Kentucky Power Company
KPSC Case No. 2023-00159
Commission Staff's Fifth Set of Data Requests
Dated October 6, 2023

DATA REQUEST

KPSC 5_15 Refer to the Application, Exhibit 5, Proposed Financing Order. Explain whether the financing order should be revised to address the degree of flexibility the Commission will have to alter existing components of billed charges identified in Section 5 of the Securitization Financing Rider or to add newly imposed components of billed charges. Explain how Commission flexibility to make these changes would be received by potential investors and rating agencies.

RESPONSE

The Company does not believe the Financing Order needs to be revised to address the degree of flexibility the Commission will have to alter the items listed in Section 5 of the Securitization Financing Rider. Section 5 merely outlines the underlying revenue that the SFR Adjustment Factor will be applied to for the purposes of rate computation.

This should not affect how potential investors and/or rating agencies view regarding the overall securitization.

Witness: Michael M. Spaeth

Witness: Katrina Niehaus

Kentucky Power Company
KPSC Case No. 2023-00159
Commission Staff's Fifth Set of Data Requests
Dated October 6, 2023

DATA REQUEST

KPSC 5_16 Refer to KRS 65.114(2)(d). Confirm that the Commission can alter any of the billing charge components in Section 5 of the Securitization Financing Rider. If not confirmed, explain.

RESPONSE

The Company cannot provide the requested confirmation because it cannot provide and is not providing legal advice in response to this request. Notwithstanding, KRS 65.114(2) does not on its face permit or prevent the Commission from altering the billing charge components in Section 5 of the Securitization Financing Order. However, that section explicitly prohibits the Commonwealth and its agencies (including the Commission) from taking any action that revises the securitized costs for which recovery is authorized, and from reducing, altering, or impairing securitized surcharges that are to be imposed until the securitized bonds have been paid and performed in full. Kentucky Power defers to any applicable law that governs the Commission's authority or ability to alter any of the billing charge components in Section 5 of the Securitization Financing Rider. Please also see the Company's response to Staff 5-15.

Preparer: Counsel

Kentucky Power Company
KPSC Case No. 2023-00159
Commission Staff's Fifth Set of Data Requests
Dated October 6, 2023

DATA REQUEST

KPSC 5_17 Explain how the Securitization Financing Rider will be applied to retail customers of any municipal electric utility or any rural electric cooperative successor to Kentucky Power when some or all of the billed charges components identified in Section 5 of the Securitization Financing Rider are no longer imposed on those retail customers.

RESPONSE

Kentucky Power is unaware of in what, if any, instance a municipal electric utility or rural electric cooperative would become a successor to Kentucky Power. Accordingly, the Company is unable to speculate as to the specific mechanism through which, in such an instance, retail customers of the municipal electric utility or rural electric cooperative would be obligated to pay the securitized surcharge (as defined in KRS 278.670(20)). The Company further is unable to speculate whether the Securitization Financing Rider would be the mechanism through which such customers would be obligated to pay the securitized surcharge.

Nonetheless, as the Company explained in its response to Staff's Fourth Request, Item 8, KRS 278.670(20) and KRS 278.676(1)(e) provide that the imposition and collection of the securitized surcharge shall be "nonbypassable and paid by all existing and future retail customers receiving electric service from the electric utility, its successors, or assignees under commission-approved rate schedules..." This would include customers receiving electric service from a municipal electric utility successor or rural electric cooperative successor. The Company would enforce any obligation to pay the securitized surcharge as required by the securitization law, KRS 278.670, *et seq.* Additionally, the Company expects that the Commission would ensure that the requirements of KRS 278.670, *et seq.*, including but not limited to those set forth in KRS 278.676(1)(e), were satisfied in connection with the relevant approvals that would be required of it under the circumstances described in this request.

Preparer: Counsel

Kentucky Power Company
KPSC Case No. 2023-00159
Commission Staff's Fifth Set of Data Requests
Dated October 6, 2023

DATA REQUEST

KPSC 5_18 Explain the mechanics of how the Securitization Financing Rider will be applied to retail customers who elect to purchase electricity from an alternative electricity supplier following a fundamental change in regulation of public utilities in Kentucky when some or all of the billed charges components identified in Section 5 of the Securitization Financing Rider are no longer imposed on those retail customers.

RESPONSE

Kentucky Power is unaware of in what, if any, instance retail customers would be permitted to elect to purchase electricity from an alternative energy supplier following a fundamental change in regulation of public utilities in Kentucky. Accordingly, the Company is unable to speculate as to the specific mechanism through which, in such an instance, retail customers of an alternative supplier would be obligated to pay the securitized surcharge (as defined in KRS 278.670(20)). The Company further is unable to speculate whether the Securitization Financing Rider would be the mechanism through which such customers would be obligated to pay the securitized surcharge.

Nonetheless, as the Company explained in its response to Staff's Fourth Request, Item 8, KRS 278.670(20) and KRS 278.676(1)(e) provide that the imposition and collection of the securitized surcharge shall be "nonbypassable and paid by all existing and future retail customers receiving electric service from the electric utility, its successors, or assignees under commission-approved rate schedules even if a retail customer elects to purchase electricity from an alternative electric supplier following a fundamental change in regulation of public utilities in the Commonwealth." The Company would enforce any obligation to pay the securitized surcharge as required by the securitization law, KRS 278.670, *et seq.* Additionally, the Company expects that the Commission would ensure that the requirements of KRS 278.670, *et seq.*, including but not limited to those set forth in KRS 278.676(1)(e), were satisfied in connection with the relevant approvals that would be required of it after such a change in Kentucky public utility regulation.

Preparer: Counsel

Kentucky Power Company
KPSC Case No. 2023-00159
Commission Staff's Fifth Set of Data Requests
Dated October 6, 2023
Page 1 of 2

DATA REQUEST

KPSC 5_19 Refer to Kentucky Power response to Staff's Fourth Request, Item 9; Item 17; and Kentucky Power's response to Staff's Second Request, Item 67, Attachment 5, Texas Public Utility Commission (PUC) 2006 Financing Order for American Electric Power Texas Central (AEP Texas). Confirm that by including marketing in Finding of Fact 104, the Texas PUC went beyond the statutory standard set forth in Tex. Util. Code §39.301. If not confirmed, explain.

RESPONSE

Counsel for the Company are not licensed in the State of Texas, cannot provide legal advice or opinion on Texas law, and are otherwise unfamiliar with the proceeding referenced in the question. Nonetheless, the Company acknowledges that the word "marketing" was included in Finding of Fact 104, and that the word "marketing" does not appear in Tex. Util. Code § 39.301, which states, in full:

The purpose of this subchapter is to enable utilities to use securitization financing to recover regulatory assets, all other amounts determined under Section 39.262, and any amounts being recovered under a competition transition charge determined as a result of the proceedings under Sections 39.201 and 39.262. This type of debt will lower the carrying costs of the assets relative to the costs that would be incurred using conventional utility financing methods. The proceeds of the transition bonds shall be used solely for the purposes of reducing the amount of recoverable regulatory assets and other amounts, as determined by the commission in accordance with this chapter, through the refinancing or retirement of utility debt or equity. The commission shall ensure that securitization provides tangible and quantifiable benefits to ratepayers, greater than would have been achieved absent the issuance of transition bonds. The commission shall ensure that the structuring and pricing of the transition bonds result in the lowest transition bond charges consistent with market conditions and the terms of the financing order. The amount securitized may not exceed the present value of the revenue requirement over the life of the proposed transition bond associated with the regulatory assets or other amounts sought to be securitized. The present value calculation shall use a discount rate equal to the proposed interest rate on the transition bonds.

Kentucky Power Company
KPSC Case No. 2023-00159
Commission Staff's Fifth Set of Data Requests
Dated October 6, 2023
Page 2 of 2

TX UTIL § 39.301. Counsel for the Company cannot offer a legal interpretation as to whether the language of the foregoing statutory provision is broad enough to also encompass marketing.

Preparer: Counsel

Kentucky Power Company
KPSC Case No. 2023-00159
Commission Staff's Fifth Set of Data Requests
Dated October 6, 2023

DATA REQUEST

KPSC 5_20 Refer to Kentucky Power's response to Staff's Fourth Request, Item 10. Identify any prior issuances of securitized ratepayer-backed bonds (i) which had \$400,000,000 or greater aggregate principal amount, (ii) for which Goldman Sachs & Co. (Goldman) served as a bookrunning underwriter, and (iii) which were issued with only one tranche.

RESPONSE

Goldman Sachs has not yet participated as bookrunning underwriter in a \$400mm+ issuance with only one tranche. However, it is worth noting that structures are optimized to reflect market conditions and investor preferences at the time the bonds are offered to investors. Therefore, it will be important to continue to evaluate the appropriate structure throughout the structuring process.

Witness: Katrina Niehaus

Kentucky Power Company
KPSC Case No. 2023-00159
Commission Staff's Fifth Set of Data Requests
Dated October 6, 2023

DATA REQUEST

KPSC 5_21 Refer to Kentucky Power's response to Staff's Fourth Request, Item 16. Identify any limits in KRS 278.670 – KRS 278.696 that Kentucky Power believes limit the Commission's authority to impose conditions on the issuance of securitized bonds as long as the conditions are not inconsistent with the statutes and the Commission finds the conditions are in the public interest.

RESPONSE

The Company cannot provide and is not providing legal advice in response to this request. Kentucky Power defers to any applicable law that governs the Commission's authority or ability to impose such conditions.

Preparer: Counsel

Kentucky Power Company
KPSC Case No. 2023-00159
Commission Staff's Fifth Set of Data Requests
Dated October 6, 2023

DATA REQUEST

KPSC 5_22 KRS 278.670(6)(f)1, KRS 278.670(11) and KRS 278.674(1) authorize the Commission to adopt Financing Orders approving the issuance of securitized bonds subject to conditions. Confirm that the Commission has authority to condition its approval of the issuance of securitized bonds with a lowest cost certification from the underwriters, a lowest cost certification from Kentucky Power, and a lowest cost certification from the Commission's financial advisor.

RESPONSE

The securitization statute neither requires the Commission to condition, nor prohibits the Commission from conditioning, its approval of the issuance of securitized bonds with a lowest cost certification from the underwriters, a lowest cost certification from Kentucky Power, and a lowest cost certification from the Commission's financial advisor.

Preparer: Counsel

Kentucky Power Company
KPSC Case No. 2023-00159
Commission Staff's Fifth Set of Data Requests
Dated October 6, 2023

DATA REQUEST

KPSC 5_23 Refer to Kentucky Power's response to Staff's Fourth Request, Item 17 and KRS 278.110, which states that the Commission may employ employees to conduct an examination to perform the duties and exercise the powers conferred by law upon the Commission. Additionally, refer to Commission regulation 807 KAR 5:001, Section 4(12)(b), which states that Commission Staff may request information from any party to a case on the Commission's behalf (emphasis added). Finally, refer to Case No. 2011-00433, which addresses Commission Staff's role in cases before the Commission: "We remind the parties that Commission Staff is not a party to this proceeding. The task of the Staff is to conduct investigations to facilitate a thorough exploration of the interests and issues involved. The traditional role of the Commission Staff is 'generally to analyze the evidence and advise the Commission.'" The response is nonresponsive. Provide the requested information.

RESPONSE

Neither Kentucky Power nor the underwriter have an obligation to provide an opinion on the reasonableness of the bonds because KRS 278.670, *et seq.* does not require them to provide such an opinion. The Company cannot speculate as to whether or how an opinion on the reasonableness of the bonds would benefit customers.

Preparer: Counsel

Kentucky Power Company
KPSC Case No. 2023-00159
Commission Staff's Fifth Set of Data Requests
Dated October 6, 2023

DATA REQUEST

KPSC 5_24 Refer to Kentucky Power's response to Staff's Fourth Request Item 18 and KRS 278.110, which states that the Commission may employ employees to conduct an examination to perform the duties and exercise the powers conferred by law upon the Commission. Additionally, refer to Commission regulation 807 KAR 5:001, Section 4(12)(b), which states that Commission Staff may request information from any party to a case on the Commission's behalf (emphasis added). Finally, refer to Case No. 2011-00433, which addresses Commission Staff's role in cases before the Commission: "We remind the parties that Commission Staff is not a party to this proceeding. The task of the Staff is to conduct investigations to facilitate a thorough exploration of the interests and issues involved. The traditional role of the Commission Staff is 'generally to analyze the evidence and advise the Commission.'" The response is nonresponsive. Provide the requested information.

RESPONSE

Please see the Company's supplemental response to Commission Staff's Second Request, Item 70 and the Company's supplemental response to Commission Staff's Fourth Request, Item 18. The Company believes that its supplemental response to Staff 4-18 provides the requested information.

Witness: Franz D. Messner

Kentucky Power Company
KPSC Case No. 2023-00159
Commission Staff's Fifth Set of Data Requests
Dated October 6, 2023

DATA REQUEST

KPSC 5_25 Refer to Kentucky Power's response to Staff's Fourth Request, Item 25(a) and KRS 278.110, which states that the Commission may employ employees to conduct an examination to perform the duties and exercise the powers conferred by law upon the Commission. Additionally, refer to Commission regulation 807 KAR 5:001, Section 4(12)(b), which states that Commission Staff may request information from any party to a case on the Commission's behalf (emphasis added). Finally, refer to Case No. 2011-00433,8 which addresses Commission Staff's role in cases before the Commission: "We remind the parties that Commission Staff is not a party to this proceeding. The task of the Staff is to conduct investigations to facilitate a thorough exploration of the interests and issues involved. The traditional role of the Commission Staff is 'generally to analyze the evidence and advise the Commission.'" The response is nonresponsive. Provide the requested information.

RESPONSE

Kentucky Power anticipates upfront financing costs for the proposed securitization to be consistent with other rate reduction bond precedents. See KPCO_R_KPSC_5_25_Attachment1-3 containing issuance advice letters for previous transactions at AEP Texas, Eversource and Southern California Edison, including estimated financing costs.

Kentucky legislation does not require lowest cost certification and as such Kentucky Power does not intend to provide a lowest cost certification.

Witness: Franz D. Messner



Control Number: 49308



Item Number: 38

Addendum StartPage: 0

PUC DOCKET NO. 49308

APPLICATION OF AEP TEXAS INC. §
 FOR A FINANCING ORDER TO §
 SECURITIZE SYSTEM §
 RESTORATION COSTS §
 §

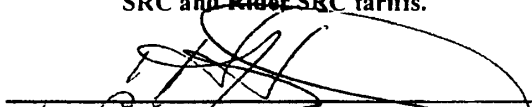
BEFORE THE
 PUBLIC UTILITY COMMISSION
 OF TEXAS

RECEIVED
 2019 SEP 12 AM 10:17
 PUBLIC UTILITY COMMISSION
 OF TEXAS

September 12, 2019

Contact: Jennifer Frederick
 American Electric Power Service Corporation
 400 West 15th Street
 Suite 1520
 Austin, Texas 78701
 (512) 481-4573
 (512) 481-4591 (facsimile)

In Compliance with Ordering Paragraph Nos. 6 and 7 of the Financing Order issued on June 17, 2019, AEP Texas Inc. hereby submits its Issuance Advice Letter and Schedule SRC and ~~Rider SRC~~ tariffs.



 Gilbert Hughes, Director Regulatory Services

TABLE OF CONTENTS

<u>Description</u>	<u>Page</u>
Issuance Advice Letter.....	2
Schedule SRC.....	18
Rider SRC.....	31
Rider ADFITC.....	33
Service List.....	35
Certificate of Service.....	36



ISSUANCE ADVICE LETTER

Thursday, September 12, 2019

Docket No. 49308

THE PUBLIC UTILITY COMMISSION OF TEXAS

SUBJECT: ISSUANCE ADVICE LETTER FOR SYSTEM RESTORATION BONDS

Pursuant to the Financing Order adopted in *Application of AEP Texas Inc. for a Financing Order*, Docket No. 49308 (the "Financing Order"), AEP TEXAS INC. ("Applicant") hereby submits, no later than the end of the first business day after the pricing date of this series of System Restoration Bonds, the information referenced below. This Issuance Advice Letter is for the 2019 System Restoration Bonds, tranches A-1 through A-2. Any capitalized terms not defined in this letter have the meanings ascribed to them in the Financing Order.

PURPOSE

This filing establishes the following:

- (a) the total amount of Qualified Costs being securitized;
- (b) confirmation of compliance with issuance standards;
- (c) the actual terms and structure of the System Restoration Bonds being issued;
- (d) the initial System Restoration Charges for retail users; and
- (e) the identification of the Special Purpose Entity ("SPE").

QUALIFIED COSTS BEING SECURITIZED

The total amount of Qualified Costs being securitized (the "Securitized Qualified Costs") is presented in Attachment 1.

COMPLIANCE WITH ISSUANCE STANDARDS

The Financing Order requires Applicant to confirm, using the methodology approved therein, that the actual terms of the System Restoration Bonds result in compliance with the standards set forth in the Financing Order. These standards are:

1. The securitization of Qualified Costs will provide tangible and quantifiable benefits to ratepayers, greater than would be achieved absent the issuance of the System Restoration Bonds (See Attachment 2, Schedule D);
2. The amount securitized will not exceed the present value of the conventional revenue requirement over the life of the System Restoration Bonds associated with the Securitized Qualified Costs when the present value calculation is made using a discount rate equal to the proposed interest rate on the System Restoration Bonds (See Attachment 2, Schedule D);
3. The total amount of revenues to be collected under the Financing Order is less than the revenue requirement that would be recovered using conventional financing methods (See Attachment 2, Schedule C and D);
4. The System Restoration Bonds will be issued in one or more series comprised of one or more tranches having target final payments of 10 years and legal final maturities not exceeding 12 years from the date of issuance of such series (See Attachment 2, Schedule A);
5. The System Restoration Bonds may be issued with an original issue discount, additional credit enhancements, or arrangements to enhance marketability provided that the Applicant certifies that the original issue discount is reasonably expected to provide benefits greater than its cost; and
6. The structuring and pricing of the System Restoration Bonds is certified by the Applicant to result in the lowest System Restoration Charges consistent with market conditions and the terms (including the amortization structure ordered by the Commission, if any) set out in the Financing Order (See Attachment 4).

ACTUAL TERMS OF ISSUANCE

System Restoration Bond Series: Senior Secured Restoration Bonds
 System Restoration Bond Issuer: **AEP Texas Restoration Funding LLC**
 Trustee: U.S. Bank National Association
 Closing Date: September 18, 2019
 Bond Ratings: S&P AAA(sf), Moody's Aaa(sf)
 Amount Issued: \$235,282,000
 System Restoration Bond Up-Front Qualified Costs: See Attachment 1, Schedule B.
 System Restoration Bond Ongoing Qualified Costs: See Attachment 2, Schedule B.

Tranche	Coupon Rate	Tranche Size	Expected Weighted Average Life	Expected Final Payment	Legal Final Maturity
A-1	2.0558%	\$117,641,000	3.05 yrs	2/1/2025	2/1/2027
A-2	2.2939%	\$117,641,000	7.87 yrs	8/1/2029	8/1/2031

Effective Annual Weighted Average Interest Rate of the System Restoration Bonds:	2.2250 %
Life of Series:	10 years
Weighted Average Life of Series:	5.46 years
Call provisions (including premium, if any):	None
Target Amortization Schedule:	Attachment 2, Schedule A
Target Final Payment Dates:	Attachment 2, Schedule A
Legal Final Maturity Dates:	Attachment 2, Schedule A
Payments to Investors:	Semiannually Beginning February 1, 2020
Initial annual Servicing Fee as a percent of original System Restoration Bond principal balance:	0.10%

INITIAL SYSTEM RESTORATION CHARGE

Table I below shows the current assumptions for each of the variables used in the calculation of the initial System Restoration Charges.

TABLE I	
Input Values For Initial System Restoration Charges	
Applicable period: from 9/18/2019 to 8/31/2020	
Forecasted retail kWh/kW sales for the applicable period:	9,629,720,961
System Restoration Bond debt service for the applicable period	\$18,815,038
Percent of billed amounts expected to be charged-off:	1.116%
Forecasted % of Billing Paid in the Applicable Period:	86.891%
Forecasted retail kWh/kW sales billed and collected for the applicable period.	8,367,333,519
Forecasted annual ongoing transaction expenses (Excluding System Restoration Bond principal and interest):	\$464,282
Initial System Restoration Bond outstanding balance:	\$235,282,000
Target System Restoration Bond outstanding balance as of: 8/31/2020:	\$220,881,917
Total Periodic Billing Requirement for applicable period:	\$24,907,814

Allocation of the PBR among customer classes: See Attachment 3.

Based on the foregoing, the initial System Restoration Charges calculated for retail users are as follows:

TABLE II	
<u>Rate Class</u>	<u>Initial System Restoration Charge</u>
Residential	\$0.001455/kWh
Secondary Service Less Than or Equal to 10 kW	\$0.001798/kWh
Secondary Service Greater Than 10 kW	\$0.297415/Distribution Billing kW
Primary Service	\$0.238983/Distribution Billing kW
Lighting Service	\$0.008215/kWh

IDENTIFICATION OF SPE

The owner of the Transition Property will be: **AEP Texas Restoration Funding LLC**

EFFECTIVE DATE

In accordance with the Financing Order, the System Restoration Charge shall be automatically effective upon the Applicant's receipt of payment in the amount of \$231,184,014¹ from **AEP Texas Restoration Funding LLC**, following Applicant's execution and delivery to **AEP Texas Restoration Funding LLC** of the Bill of Sale transferring Applicant's rights and interests under the Financing Order and other rights and interests that will become Transition Property upon transfer to **AEP Texas Restoration Funding LLC** as described in the Financing Order.

¹ The total securitized qualified costs less the sum of up-front qualified costs and original issue discount of \$400.

Page 6 of 16

NOTICE

Copies of this filing are being furnished to the parties on the attached service list. Notice to the public is hereby given by filing and keeping this filing open for public inspection at Applicant's corporate headquarters.

AUTHORIZED OFFICER

The undersigned is an officer of Applicant and authorized to deliver this Issuance Advice Letter on behalf of Applicant.

Respectfully submitted,

AEP TEXAS INC.

By:



Name: Renee V. Hawkins

Title: Assistant Treasurer

ATTACHMENT 1
SCHEDULE A
CALCULATION OF SECURITIZED QUALIFIED COSTS

Securizable Balance to be securitized:	\$231,184,414
Up-front Qualified Costs	\$4,097,586
TOTAL SECURITIZED QUALIFIED COSTS	\$235,282,000

ATTACHMENT 1
SCHEDULE B
ESTIMATED UP-FRONT QUALIFIED COSTS

CAPPED UP-FRONT QUALIFIED COSTS	
Legal Fees (Company, Issuer, and Underwriter)	\$ 2,341,043
Accountant's Fees	\$ 145,000
Trustee's/Trustee Counsel's Fees and Expenses	\$ 41,000
Servicer's Set-up Costs	\$ 155,000
Printing/Edgarizing	\$ 45,000
Company Advisor's Fee	\$ 150,000
SPE Setup Costs	\$ -
Securitization Proceeding Expenses	\$ -
Miscellaneous Administrative Costs	\$ 4,000
Underwriters' Fees	\$ 941,128
Settlement Cap	\$ (173,310)
Subtotal Capped Up-Front Qualified Costs	\$ 3,648,861
Commission's Financial Advisor Fees	\$ 50,000
Legal Fees for Counsel to the Commission's Advisor	
Original Issue Discount	\$ 400
Cost of Other Credit Enhancements	\$ -
Rounding/Contingency	\$ (399)
Rating Agency Fees	\$ 370,000
SEC Registration Fee	\$ 28,724
TOTAL UP-FRONT QUALIFIED COSTS SECURITIZED	\$ 4,097,586

Note: Certain costs are subject to an aggregate cap set forth in the Financing Order. Differences that result from the Estimated Up-front Qualified Costs securitized being more than the actual up-front costs incurred will be resolved through the true-up process described in the Financing Order. Differences that result from the Estimated Up-front Qualified Costs securitized being less than the actual up-front costs incurred may be resolved in a future proceeding as described in the Financing Order, provided that the total amount of capped costs may not be recovered in excess of the aggregate cap.

ATTACHMENT 2				
SCHEDULE A				
SYSTEM RESTORATION BOND REVENUE REQUIREMENT INFORMATION				
TRANCHE A-1				
Payment Date	Principal Balance	Interest	Principal	Total Payment
	117,641,000			
2/1/2020	114,331,459	893,488	3,309,541	4,203,029
8/1/2020	103,240,917	1,175,213	11,090,541	12,265,755
2/1/2021	92,036,376	1,061,213	11,204,541	12,265,755
8/1/2021	80,716,663	946,042	11,319,713	12,265,755
2/1/2022	69,280,595	829,687	11,436,068	12,265,755
8/1/2022	57,726,976	712,135	11,553,619	12,265,755
2/1/2023	46,054,597	593,376	11,672,379	12,265,755
8/1/2023	34,262,238	473,395	11,792,359	12,265,755
2/1/2024	22,348,665	352,182	11,913,573	12,265,755
8/1/2024	10,312,632	229,722	12,036,033	12,265,755
2/1/2025	0	106,004	10,312,632	10,418,636
TRANCHE A-2				
Payment Date	Principal Balance	Interest	Principal	Total Payment
	117,641,000			
2/1/2020	117,641,000	996,971	0	996,971
8/1/2020	117,641,000	1,349,283	0	1,349,283
2/1/2021	117,641,000	1,349,283	0	1,349,283
8/1/2021	117,641,000	1,349,283	0	1,349,283
2/1/2022	117,641,000	1,349,283	0	1,349,283
8/1/2022	117,641,000	1,349,283	0	1,349,283
2/1/2023	117,641,000	1,349,283	0	1,349,283
8/1/2023	117,641,000	1,349,283	0	1,349,283
2/1/2024	117,641,000	1,349,283	0	1,349,283
8/1/2024	117,641,000	1,349,283	0	1,349,283
2/1/2025	115,793,881	1,349,283	1,847,119	3,196,402
8/1/2025	103,506,941	1,328,098	12,286,940	13,615,038
2/1/2026	91,079,076	1,187,173	12,427,865	13,615,038
8/1/2026	78,508,669	1,044,631	12,570,407	13,615,038
2/1/2027	65,794,086	900,455	12,714,583	13,615,038
8/1/2027	52,933,674	754,625	12,860,413	13,615,038
2/1/2028	39,925,758	607,123	13,007,915	13,615,038
8/1/2028	26,768,649	457,928	13,157,110	13,615,038
2/1/2029	13,460,634	307,023	13,308,015	13,615,038
8/1/2029	0	154,387	13,460,634	13,615,021

Legal Final Maturity:

Tranche A-1 February 1, 2027

Tranche A-2 August 1, 2031

ATTACHMENT 2
SCHEDULE B
ONGOING QUALIFIED COSTS

	ANNUAL AMOUNT
Servicing Fee (AEP Texas as Servicer) (0.10% of initial System Restoration Bond principal amount)	\$235,282
Administration Fee	\$100,000
Accountant's Fee	\$38,000
Legal Fees/Expenses for Company's/Issuer's Counsel	\$10,000
Trustee's/Trustee's Counsel Fees and Expenses	\$6,000
Independent Manager's Fees	\$2,500
Rating Agency Fees	\$52,500
Printing/Edgarizing Fees	\$10,000
Miscellaneous	\$10,000
TOTAL ONGOING QUALIFIED COSTS (with AEP Texas as Servicer)	\$464,282
Ongoing Servicers Fee (Third Party as Servicer) (0.60% of principal amount)	\$1,411,692
TOTAL ONGOING QUALIFIED COSTS (Third Party as Servicer)	\$1,640,692

Note: Certain of the Ongoing Qualified Costs are subject to caps set forth in the Financing Order. The amounts shown for each category of operating expense on this attachment are the expected expenses for the first year of the System Restoration Bonds. System Restoration Charges will be adjusted at least annually to reflect any changes in Ongoing Qualified Costs through the true-up process described in the Financing Order.

ATTACHMENT 2
SCHEDULE C
CALCULATION OF SYSTEM RESTORATION CHARGES

Year	System Restoration Bond Payments	Ongoing Costs	Total Nominal System Restoration Charge Requirement	Present Value of System Restoration Charges
1	18,815,038	403,667	19,218,705	18,911,123
2	27,230,076	464,282	27,694,358	26,719,946
3	27,230,076	464,282	27,694,358	26,135,203
4	27,230,076	464,282	27,694,358	25,563,257
5	27,230,076	464,282	27,694,358	25,003,827
6	27,230,076	464,282	27,694,358	24,456,640
7	27,230,076	464,282	27,694,358	23,921,427
8	27,230,076	464,282	27,694,358	23,397,928
9	27,230,076	464,282	27,694,358	22,885,884
10	27,230,059	464,282	27,694,341	22,385,033
Total	263,885,705	4,582,205	268,467,910	239,380,268

ATTACHMENT 2
SCHEDULE D
COMPLIANCE WITH SUBCHAPTER G OF THE UTILITIES CODE

Tangible & Quantifiable Benefits and Revenue Requirements Tests:²

	Conventional Financing ³	Securitization Financing ⁴	Savings/(Cost) of Securitization Financing
Nominal	\$353.3 million	\$268.5 million	\$84.8 million
Present Value	\$313.2 million	\$239.4 million	\$73.8 million

² Calculated in accordance with the methodology cited in the Financing Order.

³ Conventional Financing of storm related costs includes carrying cost of 7.4992% and a term of 10 years as provided in the Financing Order.

⁴ From Attachment 2, Schedule C. The discount rate used is the weighted average annual interest rate of the system restoration bonds (2.2250%).

ATTACHMENT 3
INITIAL ALLOCATION OF COSTS TO SRC CLASSES

SRC Class	PBRAAF	Periodic Billing Requirement	Billing Requirement per SRC Class	Forecasted Billing Determinants	SRC Charge
Residential	52.5194%	\$24,907,814	\$13,081,435	8,988,156,882	\$0.001455/kWh
Secondary Service Less Than or Equal to 10 kW	2.9287%	\$24,907,814	\$729,475	405,788,287	\$0.001798/kWh
Secondary Service Greater Than 10 kW	31.8567%	\$24,907,814	\$7,934,808	26,679,250	\$0.297415/Distributor Billing kW
Primary Service	6.0053%	\$24,907,814	\$1,495,789	6,258,984	\$0.238983/Distributor Billing kW
Lighting Service	6.6899%	\$24,907,814	\$1,666,308	202,837,557	\$0.008215/kWh
Total	100.0000%		\$24,907,814		

Page 14 of 16

ATTACHMENT 4
FORM OF APPLICANT'S CERTIFICATION



Date: September 12, 2019

Public Utility Commission of Texas
1701 N. Congress Ave.
P.O. Box 13362
Austin, TX 78711-3326

Re: *Application of AEP Texas Inc. for a Financing Order*, Docket No. 49308

AEP TEXAS INC. (the "Applicant") submits this Certification pursuant to Ordering Paragraph No. 6 of the Financing Order in *Application of AEP Texas Inc. for a Financing Order*, Docket No. 49308 (the "Financing Order"). All capitalized terms not defined in this letter have the meanings ascribed to them in the Financing Order.

In its issuance advice letter dated September 12, 2019, the Applicant has set forth the following particulars of the System Restoration Bonds:

Name of System Restoration Bonds: **Senior Secured Restoration Bonds**

SPE: **AEP Texas Restoration Funding LLC**

Closing Date: September 18, 2019

Amount Issued: \$235,282,000

Expected Amortization Schedule: See Attachment 2, Schedule A to the Issuance Advice Letter

Distributions to Investors: Semi-annually

Weighted Average Coupon Rate: 2.2274%

Weighted Average Yield: 2.2250%

Page 15 of 16

The following actions were taken in connection with the design, marketing, structuring and pricing of the bonds:

- Included credit enhancement in the form of the true-up mechanism and an equity contribution of 0.50% of the original principal amount.
- Registered the System Restoration Bonds with the Securities and Exchange Commission to facilitate greater liquidity.
- Achieved preliminary Aaa(sf)/AAA(sf) ratings from two of the three major rating agencies with final Aaa(sf)/AAA(sf) ratings a condition of closing.
- Worked with the Commission's designated representative(s) to select underwriters that have relevant experience and execution capability.
- The marketing presentations were developed to emphasize the unique credit quality and security related to these bonds, and provide comparative analysis to other competing securities.
 - Provided the preliminary prospectus by e-mail to prospective investors.
 - Allowed sufficient time for investors to review the preliminary prospectus and to ask questions regarding the transaction.
 - Ensured that the offering materials and investor presentation materials describe the legislative, political and regulatory framework and the bond structure with a focus on corporate/agency/other crossover buyers specifically targeted to achieve the transaction objectives, and held telephone one-on-one conference calls with potential investors to discuss and answer questions.
- Arranged for the issuance of rating agency pre-sale reports during the marketing period.
- During the period that the System Restoration Bonds were marketed, held daily market update discussions with the underwriting team to develop recommendations for pricing.
- Had multiple conversations with all of the members of the underwriting team before and during the marketing phase in which we stressed the requirements of the Financing Order.
- Developed and implemented a marketing plan designed to give each of the underwriters incentive to aggressively market the System Restoration Bonds to their customers and to reach out to a broad base of potential investors, including investors who have not previously purchased this type of security.
 - Provided potential investors with access to an internet roadshow for viewing on repeated occasions at investors' convenience.
 - Adapted the System Restoration Bond offering to market conditions and investor demand at the time of pricing. Variables impacting the final structure of the transaction were

Page 16 of 16

evaluated including the length of average lives and maturity of the System Restoration Bonds and interest rate requirements at the time of pricing so that the structure of the transaction would correspond to investor preferences and rating agency requirements for AAA ratings, while meeting the requirements of the Financing Order. After evaluation, incorporated the use of original issue discount to investors consistent with the expectation that it would provide greater benefit than its costs.

- Worked with the Commission's designated representative to develop bond allocations, underwriter compensation and preliminary price guidance designed to achieve lowest interest rates.
- Worked with Commission and underwriters (and each of our respective counsels) to finalize documentation in accordance with established standards for transactions of this sort and the terms of the financing order.

Based upon information reasonably available to the officers, agents, and employees of the Applicant, the Applicant hereby certifies that the structuring and pricing of the System Restoration Bonds, as described in the issuance advice letter, will result in the lowest system restoration bond charges consistent with market conditions and the terms of the Financing Order (including the amortization structure, if any, ordered by the Commission), all within the meaning of Sections 39.301 and 36.401 of PURA.

AEP TEXAS INC.



By:
Name: Renee V. Hawkins
Title: Assistant Treasurer

AEP TEXAS - CENTRAL DIVISION
TARIFF FOR ELECTRIC DELIVERY SERVICE
Applicable: Certified Service Area previously served by AEP Texas Central Company
Chapter: 6 Section: 6.1.1
Section Title: Delivery System Charges
Revision: Original Effective Date: Bills Rendered on or after September 18, 2019

6.1.1.6.3 Schedule SRC - System Restoration Charge

DEFINITIONS

For the purposes of this schedule the following terms shall have the following meanings:

Company – AEP Texas and its successors and assigns that provide transmission or distribution service directly to customers taking service at facilities, premises, or loads located within the Service Area.

Financing Order – the Financing Order issued by the Public Utility Commission of Texas (Commission) in Docket No. 49308 under Subchapter I of Chapter 36 and Subchapter G of Chapter 39 of the Texas Public Utility Regulatory Act (PURA) providing for the issuance by the Special Purpose Entity (SPE) of system restoration bonds to securitize the amount of qualified costs (Qualified Costs) determined by the Commission in such order.

Non-Eligible Self-Generation (NESG) – Electric generation capacity greater than 10 megawatts capable of being lawfully delivered to a site without use of utility distribution or transmission facilities and which was not, on or before the date the Financing Order is issued, either (A) a fully operational facility, or (B) a project supported by substantially complete filings for all necessary site-specific environmental permits under the rules of the Texas Commission on Environmental Quality, and which materially reduces or reduced customer loads on the Company's transmission and distribution system

Retail Electric Provider (REP) – the entity which serves the customer's energy needs, and will remit to the Servicer the System Restoration Charges billed in accordance with this schedule.

Service Area – the Company's certificated Central Division service area, the service area previously served by AEP Texas Central Company, as it existed on the date of approval of the Financing Order in Docket No. 49308.

Servicer – on the effective date of this tariff, the Company shall act as Servicer. However, the SPE may select another party to function as Servicer or the Company may resign as Servicer in accordance with terms of the Servicing Agreement and Financing Order issued in Docket No. 49308. A Servicer selected under these conditions shall assume the obligations of the Company as Servicer under this schedule. As used in this schedule, the term Servicer includes any successor Servicer.

Special Purpose Entity (SPE) – the owner of Transition Property, on behalf of whom the SRCs are collected.

AEP TEXAS - CENTRAL DIVISION
TARIFF FOR ELECTRIC DELIVERY SERVICE

Applicable: Certified Service Area previously served by AEP Texas Central Company
Chapter: 6 Section: 6.1.1
Section Title: Delivery System Charges
Revision: Original Effective Date: Bills Rendered on or after September 18, 2019

6.1.1.6.3 Schedule SRC - System Restoration Charge

System Restoration Charge (SRC) – a non-bypassable charge computed on the basis of individual end-use retail customer consumption, except for SRCs applicable to NESG for which charges are based on the output of the on-site generation utilized to meet the internal electrical requirements of the customer.

- (a) For customers whose facilities, premises, and loads are subject to SRCs billed and collected pursuant to the System Restoration Charge Rates (SRC Rates) under this schedule, the SRC Rates shall constitute a separate charge.
- (b) The assessment of SRCs will be separately identified on the bills sent to REPs.

APPLICABILITY

This schedule, along with Rider SRC, sets out the rates, terms and conditions under which SRCs shall be billed and collected by the Company, any successor Servicer(s), and any REPs on behalf of the owner of Transition Property pursuant to the terms of the Financing Order. This schedule is applicable to energy consumption and demands of retail customers taking transmission and distribution service from the Company and to facilities, premises and loads of such retail customers.

This schedule also applies to:

1. Retail customers taking service at facilities, premises, or loads located within the Service Area who are not presently receiving transmission and distribution service from the Company, but whose present facilities, premises, or loads received transmission and distribution service from the Company at any time on or after the date of approval of the Financing Order in Docket No. 49308 when a request to change service to another utility was not pending as of that date.
2. Retail customers located within the Service Area and prior retail customers of the Company who are served by new NESG.

Individual end-use customers are responsible for paying SRCs billed to them in accordance with the terms of this schedule. Payment is to be made to the entity that bills the customer in accordance with the terms of the Servicing Agreement and the Financing Order, which entity may be the

AEP TEXAS - CENTRAL DIVISION
TARIFF FOR ELECTRIC DELIVERY SERVICE
Applicable: Certified Service Area previously served by AEP Texas Central Company
Chapter: 6 Section: 6.1.1
Section Title: Delivery System Charges
Revision: Original Effective Date: Bills Rendered on or after September 18, 2019

6.1.1.6.3 Schedule SRC - System Restoration Charge

Company, a successor Servicer, a REP, an entity designated to collect SRCs in place of the REP, or other entity which, under the terms of the Financing Order or PURA, may be obligated to pay or collect the SRCs. The REP, an entity designated to collect SRCs in place of the REP, or another entity which, under the terms of the Financing Order or PURA, is obligated to pay or collect the SRCs will pay the SRCs to the Servicer. The Servicer will remit collections to the SPE in accordance with the terms of the Servicing Agreement.

TERM

This schedule shall remain in effect until SRCs have been collected and remitted to the SPE which are sufficient in amount to satisfy all obligations of the SPE in regard to paying principal and interest on the System Restoration Bonds together with all other qualified costs as provided in PURA section 36.403(d). However, in no event shall the SRCs provided for in this schedule be collected for service rendered after 15 years from issuance of the System Restoration Bonds. SRCs for service rendered during the 15-year period following issuance of the System Restoration Bonds pursuant to the Financing Order, but not collected during that 15-year period, may be collected after the 15-year period. This schedule is irrevocable and non-bypassable for the full term during which it applies.

RATE CLASSES

For the purposes of billing SRCs, each retail end-use customer shall be designated as a customer in one of the following five customer classes. A new customer shall be assigned to the appropriate customer class based on anticipated usage characteristics.

Residential
Secondary Service Less Than or Equal to 10 kW
Secondary Service Greater Than 10 kW
Primary Service
Lighting Service

PERIODIC BILLING REQUIREMENT ALLOCATION FACTORS

The following Periodic Billing Requirement Allocation Factors (PBRAF) to be used in the calculation of the SRC Rates are calculated using the methods approved by the Commission in the Financing Order. The PBRAs shall be the percentage of cost responsibility for each System Restoration Charge customer class.

AEP TEXAS - CENTRAL DIVISION
 TARIFF FOR ELECTRIC DELIVERY SERVICE
 Applicable: Certified Service Area previously served by AEP Texas Central Company
 Chapter: 6 Section: 6.1.1
 Section Title: Delivery System Charges
 Revision: Original Effective Date: Bills Rendered on or after September 18, 2019

6.1.1.6.3 Schedule SRC - System Restoration Charge

<u>System Restoration Charge Class</u>	<u>PBRAAF</u>
Residential	52.5194%
Secondary Service Less Than or Equal to 10 kW	2.9287%
Secondary Service Greater Than 10 kW	31.8567%
Primary Service	6.0053%
Lighting Service	6.6899%

DETERMINATION OF SYSTEM RESTORATION CHARGE (SRC) RATES

SRC Rates will be adjusted no less frequently than annually in order to ensure that the expected collection of SRCs is adequate to pay when due, pursuant to the expected amortization schedule, principal and interest on the System Restoration Bonds and pay on a timely basis other Qualified Costs. The SRC Rates shall be computed by multiplying the PBRAFs times the Periodic Billing Requirement (PBR) for the projected period in which the adjusted SRC Rates are expected to be in effect (SRC Period), and dividing such amount by the billing units of the SRC customer class, as shown in the following formula:

$$SRC_c = [(PBR * PBRAF_c) + P_c] / FBU_c$$

where,

SRC_c = System Restoration Charge Rate applicable to a SRC rate class during the SRC Period;

PBR = Periodic Billing Requirement for the SRC Period;

$PBRAF_c$ = The Periodic Billing Requirement Allocation Factor for such class in effect at such time;

P_c = Prior period over-/under-recovery for such class;

FBU_c = Forecasted Billing Units (i.e., class-specific energy or demand billing units) currently forecast for a class for the SRC period.

AEP TEXAS - CENTRAL DIVISION
TARIFF FOR ELECTRIC DELIVERY SERVICE
Applicable: Certified Service Area previously served by AEP Texas Central Company
Chapter: 6 Section: 6.1.1
Section Title: Delivery System Charges
Revision: Original Effective Date: Bills Rendered on or after September 18, 2019

6.1.1.6.3 Schedule SRC - System Restoration Charge

TRUE-UP ADJUSTMENT PROCEDURE

Not less than 15 days prior to the first billing cycle for the Company's September billing month, and no less frequently than annually, the Servicer shall file a revised Rider SRC setting forth the upcoming SRC period's SRC Rates, complete with all supporting materials. The adjusted SRC Rates will become effective on the first billing cycle of the Company's September billing month. The Commission will have 15 days after the date of the true-up filing in which to confirm the accuracy of the of the Servicer's adjustment. Any necessary corrections to the adjusted SRC Rates, due to mathematical errors in the calculation of such rates or otherwise, will be made in a future true-up adjustment filing.

In addition, optional interim true-up adjustments may be made more frequently by the Servicer at any time during the term of the system restoration bonds to correct any undercollection or overcollection, as provided for in the Financing Order, in order to assure timely payment of the System Restoration Bonds based on rating agency and bondholder considerations. Mandatory interim true-up adjustments shall be made semi-annually (or quarterly after the final scheduled payment date of the last tranche of the System Restoration Bonds) if the Servicer forecasts that system restoration charge collections will be insufficient to make all scheduled payments of principal, interest and other amounts in respect of the System Restoration Bonds on a timely basis during the current or next succeeding payment period and/or to replenish any draws upon the capital subaccount. The interim true-up adjustment will be filed no later than 15 days prior to the following month's first billing cycle for implementation. Filing with and review by the Commission will be accomplished for the interim true-up adjustment in the manner as for the annual true-up adjustment set forth above. In no event will a mandatory interim true-up adjustment occur more frequently than every six months provided, however, that mandatory interim true-up adjustments after the final scheduled payment date of the last tranche of the System Restoration Bonds shall occur quarterly.

In the event that the forecasted billing units for one or more of the System Restoration Charge customer classes for an upcoming period decreases by more than 10% of the threshold billing units set forth in the Financing Order, the Servicer shall make a true-up filing at least 90 days before the effective date of the next annual true-up adjustment. The true-up shall be conducted in the following manner. The Servicer shall:

- (a) allocate the upcoming period's Periodic Billing Requirement based on the PBRAFs approved in the Financing Order;

AEP TEXAS - CENTRAL DIVISION
TARIFF FOR ELECTRIC DELIVERY SERVICE

Applicable: Certified Service Area previously served by AEP Texas Central Company
Chapter: 6 Section: 6.1.1
Section Title: Delivery System Charges
Revision: Original Effective Date: Bills Rendered on or after September 18, 2019

6.1.1.6.3 Schedule SRC - System Restoration Charge

- (b) calculate undercollections or overcollections from the preceding period in each class by subtracting the previous period's system restoration charge revenues collected from each class from the Periodic Billing Requirement determined for that class for the same period;
- (c) sum the amounts allocated to each customer class in steps (a) and (b) above to determine an adjusted Periodic Billing Requirement for each customer class;
- (d) divide the Periodic Billing Requirement for each customer class by the maximum of the forecasted billing units or the threshold billing units for that class, to determine the threshold rate;
- (e) multiply the threshold rate by the forecasted billing units for each class to determine the expected collections under the threshold rate;
- (f) allocate the difference in the adjusted Periodic Billing Requirement and the expected collections calculated in step (e) among the system restoration charge customer classes using the PBRAFs approved in this Financing Order;
- (g) add the amount allocated to each class in step (f) above to the expected collection amount by class calculated in step (e) above to determine the final Periodic Billing Requirement for each class; and
- (h) divide the final Periodic Billing Requirement for each class by the forecasted billing units to determine the system restoration charge rate by class for the upcoming period. The final Periodic Billing Requirement class percentage of the total Periodic Billing Requirement equals the adjusted PBRAFs.

BILLING AND COLLECTION TERMS AND CONDITIONS

The billing and collection of SRCs may differ as set forth in this schedule. The terms and conditions for each party are set forth below:

AEP TEXAS - CENTRAL DIVISION
TARIFF FOR ELECTRIC DELIVERY SERVICE

Applicable: Certified Service Area previously served by AEP Texas Central Company

Chapter: 6 Section: 6.1.1

Section Title: Delivery System Charges

Revision: Original Effective Date: Bills Rendered on or after September 18, 2019

6.1.1.6.3 Schedule SRC - System Restoration Charge

A. Billings by Servicer to other electric utilities, municipally owned utilities, and cooperatives:

1. Applicable to former retail customers of the Company in multiply certificated service areas who requested to switch from the Company to a different service provider on or after approval of the Financing Order, and are now taking service from other electric utilities, municipally owned utilities, or cooperatives or through REPs served from other electric utilities, municipally owned utilities, or cooperatives.
2. Charges subject to this tariff must be paid in full by the other electric utility, municipally owned utility, or cooperative to the Servicer 35 days after billing by the Servicer regardless of whether the electric utility, municipally owned utility, or cooperative collects such charges from the end-use retail customer or from the REP, if applicable.

B. Billings by Servicer to NESG:

1. Applicable to end-use consumption served by on-site non-eligible self generation. The SRCs applicable to NESG are in addition to the applicable System Restoration Charges under A above or C below.
2. Payment terms pursuant to the requirements of PURA, applicable Commission rules, and the Commission's Financing Order in Docket No. 49308.
3. Rate class determined by summing loads on the transmission and distribution system with loads served by non-eligible generation.
4. Servicer has the right to terminate for non-payment pursuant to the Commission's rules.

C. Billings by the REP or its Replacement to End-Use Customers:

1. Applicable to consumption of all retail end-use customers served by the REP for which SRCs apply, including applicable former customers and NESG, under the following conditions:

AEP TEXAS - CENTRAL DIVISION
TARIFF FOR ELECTRIC DELIVERY SERVICE

Applicable: Certified Service Area previously served by AEP Texas Central Company

Chapter: 6 Section: 6.1.1

Section Title: Delivery System Charges

Revision: Original Effective Date: Bills Rendered on or after September 18, 2019

6.1.1.6.3 Schedule SRC - System Restoration Charge

2. REPs shall provide the Servicer with full and timely information necessary to provide proper reporting and for billing and true-up adjustments.
3. Each REP must (1) have a long-term, unsecured credit rating of not less than “BBB-” and “Baa3” (or the equivalent) from Standard & Poor’s and Moody’s Investors Service, respectively, or (2) provide (A) a deposit of two months’ maximum expected System Restoration Charge collections in the form of cash, (B) an affiliate guarantee, surety bond, or letter of credit providing for payment of such amount of System Restoration Charge collections in the event that the REP defaults in its payment obligations, or (C) a combination of any of the foregoing. A REP that does not have or maintain the requisite long-term, unsecured credit rating may select which alternate form of deposit, credit support, or combination thereof it will utilize, in its sole discretion. The Indenture Trustee shall be the beneficiary of any affiliate guarantee, surety bond or letter of credit. The provider of any affiliate guarantee, surety bond, or letter of credit must have and maintain a long-term, unsecured credit ratings of not less than “BBB-” and “Baa3” (or the equivalent) from Standard & Poor’s and Moody’s Investors Service, respectively.
4. If the long-term, unsecured credit rating from either Standard & Poor’s or Moody’s Investors Service of a REP that did not previously provide the alternate form of deposit, credit support, or combination thereof or of any provider of an affiliate guarantee, surety bond, or letter of credit is suspended, withdrawn, or downgraded below “BBB-” or “Baa3” (or the equivalent), the REP must provide the alternate form of deposit, credit support, or combination thereof, or new forms thereof, in each case from providers with the requisite ratings, within 10 business days following such suspension, withdrawal, or downgrade. A REP failing to make such provision must comply with the provisions set forth in Paragraph 3 of the next section, Billings by the Servicer to the REP or its Replacement (when applicable).
5. The computation of the size of a required deposit shall be agreed upon by the Servicer and the REP, and reviewed no more frequently than quarterly to ensure that the deposit accurately reflects two months’ maximum collections. Within 10 business days following such review, (1) the REP shall remit to the Indenture Trustee the amount of any shortfall in such required deposit or (2) the Servicer shall instruct the Indenture Trustee to remit to the REP any amount in excess of such required deposit. A REP failing to so remit any such shortfall must comply with

AEP TEXAS - CENTRAL DIVISION
TARIFF FOR ELECTRIC DELIVERY SERVICE

Applicable: Certified Service Area previously served by AEP Texas Central Company

Chapter: 6 Section: 6.1.1

Section Title: Delivery System Charges

Revision: Original Effective Date: Bills Rendered on or after September 18, 2019

6.1.1.6.3 Schedule SRC - System Restoration Charge

the provisions set forth in Paragraph 3 of the next section, Billings by the Servicer to the REP or its Replacement (when applicable). REP cash deposits shall be held by the Indenture Trustee, maintained in a segregated account, and invested in short-term high quality investments, as permitted by the rating agencies rating the System Restoration Bonds. Investment earnings on REP cash deposits shall be considered part of such cash deposits so long as they remain on deposit with the Indenture Trustee. At the instruction of the Servicer, cash deposits will be remitted with investment earnings to the REP at the end of the term of the System Restoration Bonds unless otherwise utilized for the payment of the REP's obligations for System Restoration Charge payments. Once the deposit is no longer required, the Servicer shall promptly (but not later than 30 calendar days) instruct the Indenture Trustee to remit the amounts in the segregated accounts to the REP.

6. In the event that a REP or the POLR is billing customers for SRCs, the REP shall have the right to transfer the customer to the Provider of Last Resort (POLR) (or to another certified REP) or to direct the Servicer to terminate transmission and distribution service to the end-use customer for non-payment by the end-use customer pursuant to applicable Commission rules.

D. Billings by the Servicer to the REP or its Replacement (when applicable):

1. Applicable to all consumption subject to REP billing of SRCs.
2. Payments of SRCs are due 35 calendar days following each billing by the Servicer to the REP, without regard to whether or when the REP receives payment from its retail customers. The Servicer shall accept payment by electronic funds transfer (EFT), wire transfer (WT) and/or check. Payment will be considered received the date the EFT or WT is received by the Servicer, or the date the check clears. A 5% penalty is to be charged on amounts received after 35 calendar days; however, a 10-calendar-day grace period will be allowed before the REP is considered to be in default. A REP in default must comply with the provisions set forth in Paragraph 3 below. The 5% penalty will be a one-time assessment measured against the current amount overdue from the REP to the Servicer. The current amount consists of the total unpaid System Restoration Charges existing on the 36th calendar day after billing by the Servicer. Any and all such penalty payments will be made to the Indenture Trustee to be applied against System Restoration Charge obligations. A REP shall not be obligated to pay the overdue System Restoration Charges of another REP. If a REP agrees to assume the responsibility for the payment of

AEP TEXAS - CENTRAL DIVISION
TARIFF FOR ELECTRIC DELIVERY SERVICE

Applicable: Certified Service Area previously served by AEP Texas Central Company

Chapter: 6 Section: 6.1.1

Section Title: Delivery System Charges

Revision: Original Effective Date: Bills Rendered on or after September 18, 2019

6.1.1.6.3 Schedule SRC - System Restoration Charge

overdue System Restoration Charges as a condition of receiving the customers of another REP who has decided to terminate service to those customers for any reason, the new REP shall not be assessed the 5% penalty upon such System Restoration Charges; however, the prior REP shall not be relieved of the previously assessed penalties.

3. After the 10 calendar-day grace period (the 45th calendar day after the billing date) referred to in Paragraph 2 above, the Servicer shall have the option to seek recourse against any cash deposit, affiliate guarantee, surety bond, letter of credit, or combination thereof made by the REP, and avail itself of such legal remedies as may be appropriate to collect any remaining unpaid System Restoration Charges and associated penalties due the Servicer after the application of the REP's deposit or alternate form of credit support. In addition, a REP that is in default with respect to the requirements set forth in Paragraphs 4 and 5 of the previous section, Billings by the REP or its Replacement to End-Use Customers, and Paragraph 2 of this section shall select and implement one of the following options:
 - (a) Allow the Provider of Last Resort (POLR) or a qualified REP of the customer's choosing to immediately assume the responsibility for the billing and collection of System Restoration Charges.
 - (b) Immediately implement other mutually suitable and agreeable arrangements with the Servicer. It is expressly understood that the Servicer's ability to agree to any other arrangements will be limited by the terms of the servicing agreement and requirements of each of the rating agencies that have rated the System Restoration Bonds necessary to avoid a suspension, withdrawal, or downgrade of the ratings on the System Restoration Bonds.
 - (c) Arrange that all amounts owed by retail customers for services rendered be timely billed and immediately paid directly into a lock-box controlled by the Servicer with such amounts to be applied first to pay System Restoration Charges before the remaining amounts are released to the REP. All costs associated with this mechanism will be borne solely by the REP.

If a REP that is in default fails to immediately select and implement one of the foregoing options in (a), (b), or (c) or, after so selecting one of the foregoing options, fails to adequately meet its responsibilities thereunder, then the Servicer shall immediately implement option (a). Upon re-establishment of the

AEP TEXAS - CENTRAL DIVISION
TARIFF FOR ELECTRIC DELIVERY SERVICE

Applicable: Certified Service Area previously served by AEP Texas Central Company

Chapter: 6 Section: 6.1.1

Section Title: Delivery System Charges

Revision: Original Effective Date: Bills Rendered on or after September 18, 2019

6.1.1.6.3 Schedule SRC - System Restoration Charge

requirements set forth in Paragraphs 4 and 5 of the previous section. Billings by the REP or its Replacement to End-Use Customers, and Paragraph 2 of this section and the payment of all past-due amounts and associated penalties, the REP will no longer be required to comply with this subsection.

4. The POLR will be required to meet the minimum credit rating and/or deposit/credit support requirements described in Paragraph 3 of the preceding section, Billings by the REP or its Replacement to End-Use Customers, in addition to any other standards that may be adopted by the Commission. If the POLR defaults or is not eligible to provide such services, responsibility for billing and collection of transition charges will immediately be transferred to and assumed by the Servicer until a new POLR can be named by the Commission or the customer requests the services of a certified REP. Retail customers may never be re-billed by the successor REP, the POLR, or Servicer for any amount of System Restoration Charges they have paid their REP (although future SRCs shall reflect REP and other system-wide charge-offs). Additionally, if the amount of the penalty detailed in Paragraph 2 of this section is the sole remaining past-due amount after the 45th day, the REP shall not be required to comply with (a), (b), or (c) above, unless the penalty is not paid within an additional 30 calendar days.
5. In the event the Servicer is billing customers for System Restoration Charges, the Servicer shall have the right to terminate transmission and distribution service for non-payment by end-use customers pursuant to the Commission's rules.
6. Notwithstanding Paragraph 2 of this section, the REPs will be allowed to hold back an allowance for charge-offs in their payments to the Servicer. Such charge-off rate will be recalculated each year in connection with the annual true-up procedure. In the initial year, the REPs will be allowed to remit payments based on the same system-wide charge off percentage then being used for the transition bonds issued by AEP Texas Central Transition Funding III LLC under the financing order issued in Docket No. 39931. On an annual basis in connection with the annual true-up adjustment process, the REP and the Servicer will be responsible for reconciling the amounts held back with amounts actually written off as uncollectible in accordance with the terms agreed to by the REP and the Servicer, provided that:
 - (a) The REP's right to reconciliation for write-offs will be limited to customers whose service has been permanently terminated and whose entire accounts (i.e., all amounts due the REP for its own account as well as the portion

AEP TEXAS - CENTRAL DIVISION
TARIFF FOR ELECTRIC DELIVERY SERVICE

Applicable: Certified Service Area previously served by AEP Texas Central Company
Chapter: 6 Section: 6.1.1
Section Title: Delivery System Charges
Revision: Original Effective Date: Bills Rendered on or after September 18, 2019

6.1.1.6.3 Schedule SRC - System Restoration Charge

representing System Restoration Charges) have been written off.

(b) The REP's recourse will be limited to a credit against future SRC payments unless the REP and the Servicer agree to alternative arrangements, but in no event will the REP have recourse to the SPE or its funds for such payments.

(c) The REP shall provide information on a timely basis to the Servicer so that the Servicer can include the REP's default experience and any subsequent credits into its calculation of the adjusted SRC Rates for the next SRC billing period and the REP's rights to credits will not take effect until after such adjusted SRC Rates have been implemented.

7. In the event that a REP disputes any amount of billed System Restoration Charges, the REP shall pay the disputed amount under protest according to the timelines detailed in Paragraph 2 of this section. The REP and Servicer shall first attempt to informally resolve the dispute, but if failing to do so within 30 calendar days, either party may file a complaint with the Commission. If the REP is successful in the dispute process (informal or formal), the REP shall be entitled to interest on the disputed amount paid to the Servicer at the Commission-approved interest rate. Disputes about the date of receipt of System Restoration Charge payments (and penalties arising thereof) will be handled in a like manner. Any interest paid by the Servicer on disputed amounts shall not be recovered through System Restoration Charges if it is determined that the Servicer's claim to the funds is clearly unfounded. No interest shall be paid by the Servicer if it is determined that the Servicer has received inaccurate metering data from another entity providing competitive metering services pursuant to PURA section 39.107.
8. If the Servicer is providing the metering, the metering data will be provided to the REP at the same time as the billing. If the Servicer is not providing the metering, the entity providing metering service(s) will be responsible for complying with Commission rules and ensuring that the Servicer and the REP receive timely and accurate metering data in order for the Servicer to meet its obligations under the Servicing Agreement and the Financing Order with respect to billing and true-ups.

OTHER TERMS AND CONDITIONS

If the customer, REP, or other entity which, under the terms of the Financing Order or PURA, may be obligated to pay or collect the SRCs, pays only a portion of its bill, a pro-rata share amount of

AEP TEXAS - CENTRAL DIVISION
TARIFF FOR ELECTRIC DELIVERY SERVICE

Applicable: Certified Service Area previously served by AEP Texas Central Company
Chapter: 6 Section: 6.1.1
Section Title: Delivery System Charges
Revision: Original Effective Date: Bills Rendered on or after September 18, 2019

6.1.1.6.3 Schedule SRC - System Restoration Charge

System Restoration Charge revenues shall be deemed to be collected. In the event of any such shortfall, the amount paid shall first be apportioned between the system restoration charges and other fees and charges owed to the Company or any successor, other than late fees, ratably based on the amount owed for System Restoration Charges and the amount owed for other fees and charges (including system restoration charges owed for system restoration bonds), and second, any remaining portion of such payment shall be allocated to late fees.

At least once each year, (i) the Company shall cause to be prepared and delivered to REPs and such customers a notice stating, in effect, that the Transition Property and the System Restoration Charges are owned by the SPE and not the Company; and (ii) each REP which bills System Restoration Charges shall cause to be prepared and delivered to such customers a notice stating, in effect, that the Transition Property and the System Restoration Charges are owned by the SPE and not the REP or the Company. Such notice shall be included either as an insert to or in the text of the bills delivered to such REPs or customers, as applicable, or shall be delivered to customers by electronic means or such other means as the Servicer or the REP may from time to time use to communicate with their respective customers.

AEP TEXAS - CENTRAL DIVISION
 TARIFF FOR ELECTRIC DELIVERY SERVICE
 Applicable: Certified Service Area previously served by AEP Texas Central Company
 Chapter: 6 Section: 6.1.1
 Section Title: Delivery System Charges
 Revision: Original Effective Date: Bills Rendered on or after September 18, 2019

6.1.1.6.3.1 Rider SRC – System Restoration Charge Factors

AVAILABILITY

This schedule is applicable to billed energy consumption and demands of retail customers taking service from the Company during the term that this schedule is in effect, and to the facilities, premises, and loads of all other retail customers obligated to pay Rider SRC Charges as provided in Schedule SRC, Section 6.1.1.6.3. Terms defined in Schedule SRC that are used herein shall have the same meaning as set forth in Schedule SRC.

RATE CLASSES

For purposes of billing System Restoration Charge Rates (SRC Rates), each retail end-use customer will be designated as a customer belonging to one of five classes as identified by Schedule SRC.

SYSTEM RESTORATION CHARGE RATES

<u>System Restoration Charge Customer Class</u>	<u>SRC Rates</u>
Residential	\$0.001455 per kWh
Secondary Service Less Than or Equal to 10 kW	\$0.001798 per kWh
Secondary Service Greater Than 10 kW	\$0.297415 per Distribution Billing kW
Primary Service	\$0.238983 per Distribution Billing kW
Lighting Service	\$0.008215 per kWh

The SRC Rates are multiplied by the kWh or kW, as applicable, read, estimated or determined during the billing month and will be applied to bills rendered on and after the effective date.

SYSTEM RESTORATION CHARGE TRUE-UP

The Restoration Charge Rates shall be determined in accordance with and are subject to the provisions set forth in the Financing Order and Schedule SRC. Not less than 15 days prior to the first billing cycle for the Company's September billing month and no less frequently than annually thereafter, the Company or successor Servicer will file a revision to Rider SRC setting forth the adjusted SRC Rates to be effective for the upcoming period. If made as a result of the annual true-up adjustment in Schedule SRC, the adjusted SRC Rates will become effective on the first billing cycle of the Company's September billing month. In accordance with Schedule SRC, an interim true-up is mandatory semi-annually (or quarterly after the final scheduled payment date of the last tranche of the system restoration bonds) if the Servicer forecasts that system restoration charge

AEP TEXAS - CENTRAL DIVISION
TARIFF FOR ELECTRIC DELIVERY SERVICE
Applicable: Certified Service Area previously served by AEP Texas Central Company
Chapter: 6 Section: 6.1.1
Section Title: Delivery System Charges
Revision: Original Effective Date: Bills Rendered on or after September 18, 2019

6.1.1.6.3.1 Rider SRC – System Restoration Charge Factors

collections will be insufficient to make all scheduled payments of principal, interest and other amounts in respect of the System Restoration Bonds on a timely basis during the current or next succeeding payment period and/or or to replenish any draws upon the capital subaccount. Optional interim true-ups may also be made at any time as described in Schedule SRC. If an interim true-up adjustment is made pursuant to Schedule SRC, the Adjusted SRC Rates will be become effective on the first billing cycle of the Company's billing month that is not less than 15 days following the making of the interim true-up adjustment filing. In the event that the forecasted billing units for one or more of the System Restoration Charge customer classes for an upcoming period decreases by more than 10% of the threshold billing units set forth in the Financing Order, the Servicer shall make a true-up filing at least 90 days prior to the first billing cycle for the Company's September billing month.

AEP TEXAS - CENTRAL DIVISION
TARIFF FOR ELECTRIC DELIVERY SERVICE
Applicable: Certified Service Area previously served by AEP Texas Central Company
Chapter: 6 Section: 6.1.1
Section Title: Delivery System Charges
Revision: Original Effective Date: Bills Rendered on or after September 18, 2019

6.1.1.6.5. Rider ADFIT – ADFIT Credit

APPLICABILITY

Pursuant to Public Utility Commission of Texas Docket No. 49308, the ADFIT Credit is a negative charge to customers subject to Schedule SRC to provide customers the accumulated deferred federal income tax (ADFIT) benefits associated with Hurricane Harvey and other system restoration costs.

This schedule is applicable to billed energy consumption and demands of retail customers taking service from the Company during the term that this schedule is in effect, and to the facilities, premises, and loads of all other retail customers obligated to pay Rider SRC Charges as provided in Schedule SRC, Section 6.1.1.6.3. Terms defined in Schedule SRC that are used herein shall have the same meaning as set forth in Schedule SRC.

TERM

This Rider ADFITC is effective beginning on the date Schedule SRC is effective and will remain in effect over the 10-year term of Schedule SRC.

ADFIT ALLOCATION FACTORS

The ADFIT Allocation Factors are the same as the PBRAFs in Schedule SRC.

ADFITC RATES

The ADFITC Credits to be applied beginning on the effective date of this Rider ADFITC are set out below. The ADFITC rate classes and billing units are the same as the classes and billing units in Rider SRC. In addition, ADFITC Credits are applicable to each customer which has New On-Site Generation as defined in Schedule SRC, and to customers in multiply-certificated areas who request to switch from AEP Texas to another service provider on or after the date of approval of the Financing Order in Docket No. 49308, as and to the extent Schedule SRC charges are applicable to such customers. ADFITC Credits to be applied in subsequent periods will be determined in the annual true-up process.

AEP TEXAS - CENTRAL DIVISION
 TARIFF FOR ELECTRIC DELIVERY SERVICE
 Applicable: Certified Service Area previously served by AEP Texas Central Company
 Chapter: 6 Section: 6.1.1
 Section Title: Delivery System Charges
 Revision: Original Effective Date: Bills Rendered on or after September 18, 2019

6.1.1.6.5. Rider ADFIT – ADFIT Credit

<u>ADFITC Rate Class</u>	<u>ADFITC Rates</u>
Residential	(\$0.000166) per kWh
Secondary Service Less Than or Equal to 10 kW	(\$0.000205) per kWh
Secondary Service Greater Than 10 kW	(\$0.033988) per Distribution Billing kW
Primary Service	(\$0.027311) per Distribution Billing kW
Lighting Service	(\$0.000939) per kWh

The ADFITC Rates are multiplied by the kWh or kW, as applicable, read, estimated or determined during the billing month and will be applied to bills rendered on and after the effective date.

ADFITC TRUE-UP ADJUSTMENT

ADFITC Charges shall be adjusted annually effective on each date that charges in Schedule SRC become effective. The ADFITC true-up will be performed at the same time, using the same methodology and billing determinants, as the Standard True-Up or Non-Standard True-Up for Rate Schedule SRC. The ADFITC Charges shall be adjusted to (1) correct any over-credit or under-credit of the amounts previously scheduled to be provided to customers and (2) reflect the amounts scheduled to be provided to customers during the period the adjusted ADFITC Charges are to be effective.

OTHER TERMS AND CONDITIONS


If the customer or REP pays only a portion of its bill, a pro-rata portion of ADFITC Charge credits will be credited equal to the pro-rata portion of Schedule SRC collected according to Schedule SRC.

PUC DOCKET NO. 39931
APPLICATION OF AEP TEXAS CENTRAL COMPANY FOR FINANCING ORDER

PARTIES	REPRESENTATIVE/ADDRESS
PUBLIC UTILITY COMMISSION	ALEXANDER PETAK PUBLIC UTILITY COMMISSION 1701 N CONGRESS AVE STE 8-110 PO BOX 13326 AUSTIN TX 78711 512-936-7377 512-936-7268 FAX
AEP TEXAS CENTRAL COMPANY	RHONDA COLBERT RYAN MELISSA A. GAGE AMERICAN ELECTRIC POWER SERVICE CORPORATION 400 WEST 15TH STREET SUITE 1520 AUSTIN TX 78701 512-481-3321 512-481-4591 (FAX) Email: reryan@aep.com magage@aep.com JOHN F. WILLIAMS SCOTT OLSON DUGGINS WREN MANN & ROMERO LLP 600 CONGRESS AVE SUITE 1900 AUSTIN TX 78701 512-744-9300 512-744-9399 FAX Email: jwilliams@dwmrlaw.com solson@dwmrlaw.com
ALLIANCE FOR RETAIL MARKETS	STEPHEN J. DAVIS LAW OFFICES OF STEPHEN J. DAVIS 919 CONGRESS AVE STE 900 AUSTIN TX 78701 512-479-9995 512-479-9996 FAX Email: davis@sjdlawoffices.com

CERTIFICATE OF SERVICE

I hereby certify that a true and correct copy of the foregoing filing was served on all parties of record in this proceeding by facsimile, hand delivered, electronically mailed, or sent by United States first class mail on this 12 day of September, 2019.



Grieg Gullickson



May 4, 2018

Ms. Debra A. Howland
Executive Director and Secretary
New Hampshire Public Utilities Commission
21 S. Fruit Street, Suite 10
Concord, New Hampshire 03301

Re: Docket No. DE 17-096
Petition for Findings of Fact and Issuance of Finance Order
Issuance Advice Letter

Dear Director Howland:

On January 30, 2018, the Commission issued Order No. 26,099, the "Finance Order," in Docket No. DE 17-096. The Finance Order authorized Public Service Company of New Hampshire dba Eversource Energy ("PSNH") to enter into a securitized financing of an amount up to \$690 million as part of the Company's divestiture of its generation assets pursuant to the 2015 Settlement Agreement and consistent with RSA Chapter 369-B.

The Finance Order notes (at 12) that upon final determination of all terms of the RRBs, and prior to their issuance, PSNH will file an Issuance Advice Letter setting forth the final terms of the RRBs. The Finance Order further notes (at 54) that the Issuance Advice Letter is to be filed after pricing of the RRBs, but before issuance.

The RRBs were priced on May 1 and their issuance is scheduled to take place on May 8. Per the terms of the Finance Order, PSNH is filing the attached Issuance Advice Letter.

Please let me know if you have any questions.

Sincerely,

A handwritten signature in black ink, appearing to read "Robert Bersak".

Robert A. Bersak
Chief Regulatory Counsel

Atch: Issuance Advice Letter

cc: Service List

ISSUANCE ADVICE LETTER

May 4, 2018

ADVICE

NEW HAMPSHIRE PUBLIC UTILITIES COMMISSION (THE "**COMMISSION**")

SUBJECT: Issuance Advice Letter for Rate Reduction Bonds ("**RRBs**")

Pursuant to the Commission's Order No. 26,099 dated January 30, 2018 in Docket No. DE 17-096 (the "**Finance Order**"), Public Service Company of New Hampshire d/b/a Eversource Energy ("**PSNH**") hereby transmits for filing the initial RRB Charges for \$635,663,200 Rate Reduction Bonds, Series 2018-1. This Issuance Advice Letter further details the calculation of the \$635,663,200 principal amount of the RRBs. Any capitalized terms not defined herein shall have the meanings ascribed thereto in the Finance Order.

PURPOSE

This filing establishes the following:

- (a) the aggregate principal amount of the RRBs being issued;
- (b) the actual terms of the RRBs being issued;
- (c) the initial RRB Charges for retail users;
- (d) the identification of the RRB Property to be sold to a special purpose entity (the "**SPE**");
and
- (e) the identification of the SPE.

BACKGROUND

In the Finance Order, the Commission authorized PSNH to file an Issuance Advice Letter when the aggregate principal amount and the final terms, including the pricing terms, for the RRBs have been established. This Issuance Advice Letter filing incorporates the methodology that was approved and authorized by the Commission in the Finance Order for determining the aggregate principal amount of the RRBs and the initial RRB Charges for the RRBs and establishes the initial RRB Charges to be assessed against and collected from all of PSNH's retail customers taking retail electric service. The RRB Charges are a usage-based component of the SCRC on each retail customer's monthly bill collected as authorized by the Commission until the Total RRB Payment Requirements have been discharged in full.

AGGREGATE PRINCIPAL AMOUNT OF THE RRBs

The aggregate principal amount of RRBs to be issued is \$635,663,200. Attachment 1 sets forth the Stranded Costs, unrecovered deferrals, transaction costs, tax stabilization payments, employee protections and other costs as contemplated in the 2015 Settlement Agreement to be securitized.

TERMS OF THE RRBs

RRB Name:	\$635,663,200 Rate Reduction Bonds, Series 2018-1
RRB Issuer (the SPE):	PSNH Funding LLC 3
Trustee:	The Bank of New York Mellon
Closing Date:	May 8, 2018
Bond Ratings:	Aaa(sf) (Moody's) / AAA(sf) (S&P) / AAA(sf) (Fitch)
Amount Issued:	\$635,663,200, comprised of: \$235,900,000 (Tranche A-1) \$111,600,000 (Tranche A-2) \$288,163,200 (Tranche A-3)
Upfront transaction costs:	See Attachment 2
Estimated ongoing transaction costs:	See Attachment 3
Coupon Rate:	3.094% (Tranche A-1) 3.506% (Tranche A-2) 3.814% (Tranche A-3)
Call Features:	None
New Hampshire Tax Exempt (yes/no):	Yes, per RSA 369-B:5, VI
Expected Principal Amortization Schedule:	See Attachment 4
Expected Final Maturity:	February 1, 2024 (Tranche A-1) August 1, 2026 (Tranche A-2) February 1, 2033 (Tranche A-3)
Legal Final Maturity:	February 1, 2026 (Tranche A-1) August 1, 2028 (Tranche A-2) February 1, 2035 (Tranche A-3)
Distributions to Investors:	Semi-annually
Dates on which Routine True-Up Letters will be filed and on which adjusted RRB charges will be implemented:	Not later than January 15 (to become effective on February 1) and, if necessary, not later than July 15 (to become effective on August 1)
Annual Servicing Fee as a percent of the initial RRB principal balance:	0.05%
Capital contribution to the SPE:	0.50% of the initial principal amount of the RRBs

INITIAL RRB CHARGES

Table I below shows the current assumptions for each of the variables used in the Company's initial RRB Charge calculation.

TABLE I
 INPUT VALUES FOR RRB CHARGES

Forecasted kWh sales:

Customer Class	Forecasted kwh sales
Residential Service (Tariff Rates R)	1,740,390,049.45 kWh
General Service (Tariff Rates G)	988,779,715.08 kWh
Primary General Service (Tariff Rates GV)	961,483,677.85 kWh
Large General Service (Tariff Rates LG)	740,865,700.32 kWh
Outdoor Lighting (Tariff Rates OL)	16,699,163.38 kWh

Percent of billed amounts expected to be charged-off: 0.68%

Weighted average days sales outstanding: 29

Forecasted annual ongoing transaction expenses¹: \$ 660,831.60

RRB Principal payments due: \$ 30,726,922.04

RRB Interest payments due: \$ 16,219,784.54

The initial RRB Charge calculated for retail users is as follows:

Customer Class	Initial RRB Charge
Residential Service (Tariff Rates R)	1.338 ¢/kWh
General Service (Tariff Rates G)	1.207 ¢/kWh
Primary General Service (Tariff Rates GV)	0.993 ¢/kWh
Large General Service (Tariff Rates LG)	0.371 ¢/kWh
Outdoor Lighting (Tariff Rates OL)	1.430 ¢/kWh

RRB PROPERTY

RRB Property is the property right described in RSA Chapter 369-B (the “**Legislation**”) and established in the Finance Order relating to the RRB Charges set forth herein, including, without limitation, the right, title and interest in and to all revenues, collections, claims, payments, money or proceeds of or arising from or constituting (a) the RRB Charges authorized by the Finance Order, including the initial RRB Charges set forth in this Issuance Advice Letter, as may be adjusted from time to time in order to recover RRB Costs and to generate amounts sufficient to

¹ On-going transaction expenses pro-rated for the initial interest period, which commences on the closing date (May 8, 2018) and ends on the first payment date.

discharge an amount equal to the Periodic RRB Payment Requirements, for the period which such RRB Charges will be collected, as found and authorized in this Issuance Advice Letter, and (b) all rights to obtain periodic adjustments and non-routine adjustments to the RRB Charges in accordance with the True-Up Mechanism.

The RRB Charges, as adjusted from time to time, shall remain in place until the Total RRB Payment Requirements have been discharged in full.

IDENTIFICATION OF SPE

The owner of the RRB Property (the "SPE") will be: PSNH Funding LLC 3.
The SPE shall be considered a financing entity for purposes of RSA Chapter 369-B.

EFFECTIVE DATE

In accordance with the Finance Order, the RRB Charges shall be automatically effective when filed and will continue to be effective, until they are changed by subsequent Issuance Advice Letter, Routine True-Up Letter or Non-Routine True-Up Letter.

NOTICE

Copies of this filing are being furnished to the parties on the attached service list. Notice to the public is hereby given by filing and keeping this filing open for public inspection at PSNH's corporate headquarters.

Attachments

ATTACHMENT 1 to ISSUANCE ADVICE LETTER
AGGREGATE PRINCIPAL AMOUNT OF THE RRBs*

Description	Amount
Net Book Value of Generating Assets and Inventory	\$ 713,844
Sales Proceeds	(215,858)
Regulatory Assets and Liabilities	164,478
Employee Separation Costs	6,963
Transaction Costs	22,455
Net Present Value of Taxes	(62,963)
Issuance Costs	6,744
Total Securitization Amount	\$ 635,663

* Amounts in thousands

ATTACHMENT 2 to ISSUANCE ADVICE LETTER
 UPFRONT TRANSACTION COSTS

Estimated Upfront Financing Costs		
Accountant's / Auditor's Fees		\$ 200,000
Legal Fees and Expenses (Issuer's Counsel)		1,400,000
Legal Fees and Expenses (Trustee's Counsel)		49,605
Legal Fees and Expenses (Underwriter's Counsel)		880,000
Printing & Filing Costs		65,000
Rating Agency Fees		905,820
SEC Registration Fees		79,140
Servicer Set-up Costs		50,000
Structuring Advisor		250,000
Trustee Fees		2,500
Underwriting Costs		2,587,149
Miscellaneous		275,066
Total		\$6,744,281

ATTACHMENT 3 to ISSUANCE ADVICE LETTER
 ESTIMATED ANNUAL ONGOING TRANSACTION COSTS

Estimated Ongoing Financing Costs		
Servicing Fee (Paid to PSNH)		\$317,831.60
Administration Fees and Expenses		75,000
Trustee Fees and Expenses		3,000
Legal Fees		50,000
Accounting Fees		150,000
SPE Independent Manager's Fees		2,500
Rating Agency Fees		57,500
Miscellaneous		5,000
Total		\$660,831.60

ATTACHMENT 4 to ISSUANCE ADVICE LETTER
EXPECTED AMORTIZATION SCHEDULE

<u>Payment Dates</u>	<u>A-1 Balance</u>	<u>A-2 Balance</u>	<u>A-3 Balance</u>	<u>Total Principal Outstanding</u>
8-May-18	235,900,000.00	111,600,000.00	288,163,200.00	635,663,200.00
1-Feb-19	205,173,077.96	111,600,000.00	288,163,200.00	604,936,277.96
1-Aug-19	183,568,210.89	111,600,000.00	288,163,200.00	583,331,410.89
1-Feb-20	161,963,343.82	111,600,000.00	288,163,200.00	561,726,543.82
1-Aug-20	140,358,476.75	111,600,000.00	288,163,200.00	540,121,676.75
1-Feb-21	118,753,609.68	111,600,000.00	288,163,200.00	518,516,809.68
1-Aug-21	97,148,742.61	111,600,000.00	288,163,200.00	496,911,942.61
1-Feb-22	75,543,875.54	111,600,000.00	288,163,200.00	475,307,075.54
1-Aug-22	53,939,008.47	111,600,000.00	288,163,200.00	453,702,208.47
1-Feb-23	32,334,141.40	111,600,000.00	288,163,200.00	432,097,341.40
1-Aug-23	10,729,274.33	111,600,000.00	288,163,200.00	410,492,474.33
1-Feb-24	-	100,724,407.26	288,163,200.00	388,887,607.26
1-Aug-24	-	79,119,540.19	288,163,200.00	367,282,740.19
1-Feb-25	-	57,514,673.12	288,163,200.00	345,677,873.12
1-Aug-25	-	35,909,806.05	288,163,200.00	324,073,006.05
1-Feb-26	-	14,304,938.98	288,163,200.00	302,468,138.98
1-Aug-26	-	-	280,863,271.91	280,863,271.91
1-Feb-27	-	-	259,258,404.84	259,258,404.84
1-Aug-27	-	-	237,653,537.77	237,653,537.77
1-Feb-28	-	-	216,048,670.70	216,048,670.70
1-Aug-28	-	-	194,443,803.63	194,443,803.63
1-Feb-29	-	-	172,838,936.56	172,838,936.56
1-Aug-29	-	-	151,234,069.49	151,234,069.49
1-Feb-30	-	-	129,629,202.42	129,629,202.42
1-Aug-30	-	-	108,024,335.35	108,024,335.35
1-Feb-31	-	-	86,419,468.28	86,419,468.28
1-Aug-31	-	-	64,814,601.21	64,814,601.21
1-Feb-32	-	-	43,209,734.14	43,209,734.14
1-Aug-32	-	-	21,604,867.07	21,604,867.07
1-Feb-33	-	-	-	-

SERVICE LIST - EMAIL ADDRESSES - DOCKET RELATED

Pursuant to N.H. Admin Rule Puc 203.11 (a) (1): Serve an electronic copy on each person identified on the service list.

Executive.Director@puc.nh.gov
alexander.speidel@puc.nh.gov
amanda.noonan@puc.nh.gov
cathy.shannon@eversource.com
christine.vaughan@eversource.com
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tom.frantz@puc.nh.gov

Docket #: 17-096-1 Printed: May 02, 2018

FILING INSTRUCTIONS:

a) Pursuant to N.H. Admin Rule Puc 203.02 (a), with the exception of Discovery, file 7 copies, as well as an electronic copy, of all documents including cover letter with:

DEBRA A HOWLAND
EXECUTIVE DIRECTOR
NHPUC
21 S. FRUIT ST, SUITE 10
CONCORD NH 03301-2429

b) Serve an electronic copy with each person identified on the Commission's service list and with the Office of Consumer Advocate.

c) Serve a written copy on each person on the service list not able to receive electronic mail.

February 17, 2021

**Advice 4416-E
(Southern California Edison Company ID U338E)**

Public Utilities Commission of the State of California

Subject: Issuance Advice Filing for Recovery Bonds

Pursuant to California Public Utilities Commission (CPUC) Decision (D.) 20-11-007 (Decision), Southern California Edison Company (SCE) hereby transmits for filing, on the pricing date of this series of Recovery Bonds, the initial Fixed Recovery Charges for the series. This Issuance Advice Filing is for the Senior Secured Recovery Bonds Series 2021-A, Tranche(s) A-1, A-2 and A-3 (Recovery Bonds).

Purpose:

This filing establishes initial Fixed Recovery Charges for rate schedules for Consumers. This filing also establishes the Recovery Property to be sold to the Recovery Property Owner (Special Purpose Entity or SPE), including the Billing Commencement Date. Finally, this filing sets forth the final terms of the Recovery Bonds, including a final estimate of Upfront Financing Costs and estimated Ongoing Financing Costs for the 12-month period following the Closing Date.

Background:

In the Decision, the Commission authorized SCE to submit Issuance Advice Letters when final terms and pricing for Recovery Bonds have been established. Issuance Advice Letter filings are those in which SCE uses the cost allocation and rate design methodology and Fixed Recovery Charge cash flow formula (the "adjustment mechanism") found reasonable by the Commission in the Decision to establish initial Fixed Recovery Charges for a series of Recovery Bonds. Using this methodology and formula approved by the Commission in the Decision, this filing establishes the initial Fixed Recovery Charges.

Issuance Information:

The Decision requires SCE to provide the following information.

Recovery Bond Name:	Senior Secured Recovery Bonds, Series 2021-A
Recovery Property Owner (SPE):	SCE Recovery Funding LLC
Bond Trustee(s):	The Bank of New York Mellon Trust Company, N.A.
Closing Date:	2/24/2021
Bond Rating(s):	AAA(sf) (S&P)/Aaa (sf) (Moody's)/ AAA sf (Fitch)

February 17, 2021
Page 2

Principal Amount Issued (Authorized Amount):	\$337,783,000 (See Table 1 below)
Upfront Financing Costs:	\$5,960,504 (See Table 2 below)
Upfront Financing Costs as a Percent of Principal Amount Issued:	1.76%
Coupon Rate(s):	See Exhibit 1
Call Features:	None
Expected Principal Amortization Schedule:	See Exhibit 1
Scheduled Final Payment Date(s):	See Exhibit 1
Legal Maturity Date(s):	See Exhibit 1
Payment Dates (semi-annually):	May 15 and November 15
Annual Servicing Fee as a percent of the issuance amount:	0.05%
Annual Administration Fee:	\$75,000
Overcollateralization amount for the series, if any:	Not applicable
FRC Annual Adjustment Date:	January 1
Semi-Annual Adjustment Dates:	Not Applicable
Billing Commencement Date:	June 1, 2021
First Payment Period:	February 24 through and including November 15, 2021
Second Payment Period:	November 16, 2021 through and including May 15, 2022

Authorized Amount:

The following table sets for the computation of the final Authorized Amount (i.e., the principal amount of the Recovery Bonds).

Table 1: Authorized Amount	
Initial AB 1054 CapEx Amount:	\$326,981,000
Estimated Pre-Securitization Debt Financing Costs of Initial AB 1054 CapEx (See Exhibit 4)	\$4,840,926
Upfront Financing Costs (See Table 2 below)	\$5,960,504
Total Authorized Amount (rounded to nearest \$1,000)	\$337,783,000

February 17, 2021
 Page 3

Upfront Financing Costs:

The following table includes actual or estimated (as noted) Upfront Financing Costs to be incurred in connection with the issuance of the Recovery Bonds:

Table 2: Upfront Financing Costs	
Underwriters' Fees and Expenses	\$1,351,132
Legal Fees and Expenses (estimated)	\$2,200,000
Rating Agency Fees	\$630,000
Accounting Fees and Expenses	\$80,000
Company's Advisory Fee	\$300,000
Servicer Set-up Costs (estimated)	\$500,000
SEC Registration Fees	\$37,094
Section 1904 Fees	\$174,892
Printing / EDGARizing Expenses (estimated)	\$155,000
Trustee / Trustee Counsel Fee and Expenses (estimated)	\$28,500
Original Issue Discount	\$8,887
Commission's Costs and Expenses (estimated)	\$420,000
Miscellaneous (estimated)	\$75,000
Total	\$5,960,504

True-Up Mechanism:

Changes to the Fixed Recovery Charges will be requested through the filing of Routine True-Up Mechanism Advice Letter and Non-Routine True-Up Mechanism Advice Letters in accordance with the Decision. Annually before each FRC Annual Adjustment Date and more often as deemed necessary by the servicer the servicer will submit Routine True-Up Mechanism Advice Letter in the form of Attachment 3 to the Financing Order to ensure that Fixed Recovery Charges collections be sufficient to make all scheduled payments of bond principal, interest, and other Ongoing Financing Costs on a timely basis during each of the two payment periods. The first payment period means the period commencing on the Closing Date and ending (and including) the first Payment Date following the Closing Date (the "First Payment Period"); the second payment period means the period commencing on the day following the first Payment Date and ending (and including) the next Payment Date (the "Second Payment Period"). The servicer may also submit Allocation Factor Non-Routine True-Up Mechanism Advice Letter in the form of Attachment 4 to the Financing Order after any base rate proceeding changing the allocation factors. The servicer may also submit Non-Routine True-Up Mechanism Advice Letters in the form of Attachment 5 to the Financing Order.

February 17, 2021
 Page 4

Ongoing Financing Costs:

The following table includes estimated Ongoing Financing Costs for the First and Second Payment periods following Closing Date to be recovered through Fixed Recovery Charges in accordance with the Financing Order.

TABLE 3: Estimated Ongoing Financing Costs		
	First Payment Period ⁽²⁾	Second Payment Period
Servicing Fee (SCE as Servicer) (0.05% of the initial Recovery Bond principal amount) ⁽¹⁾	\$115,878	\$84,446
Administration Fee ⁽¹⁾	\$51,458	\$37,500
Accounting Fees and Expenses	\$54,889	\$40,000
Legal Fees and Expenses	\$24,014	\$17,500
Rating Agency Surveillance Fees	\$42,882	\$31,250
Trustee Fees and Expenses	\$3,431	\$2,500
Independent Director Fees	\$1,715	\$1,250
Printing / EDGARizing Expenses	\$6,861	\$5,000
Return on Equity ⁽³⁾	\$23,329	\$17,001
Miscellaneous Fees and Expenses	\$6,861	\$5,000
TOTAL ONGOING FINANCING COSTS (with SCE as Servicer)	\$331,318	\$241,447

Fixed Recovery Charges:

Table 4 below shows the inputs and current assumptions for each of the variables used in calculating the Fixed Recovery Charges:

⁽¹⁾ SCE will periodically credit back to customers through the BRRBA all periodic servicing and administration fees in excess of SCE's incremental cost of performing the servicer and administration functions until the next general rate case (GRC) when costs and revenues associated with the servicing fees will be included in the cost of service. In each base rate case, SCE will include a revenue credit of the administration and servicing fees that SCE collects as the servicer/administrator of the Recovery Bonds (to the extent not previously credited back through the BRRBA). In the base rate case, SCE will also request revenue for all costs of providing servicing and administration services. *The failure on the part of SCE to provide any such credit to ratepayers will no way affect the Recovery Property, the Fixed Recovery Charge or the rights of SCE, the Trustee and the Recovery Bondholders under the Financing Order, but may be addressed by the Commission through other proceedings.*

⁽²⁾ Represents payments for approximately 8 months.

⁽³⁾ Assumes a weighted average interest cost of 2.013%.

February 17, 2021
Page 5

TABLE 4: Input Values For Fixed Recovery Charges		
	First Payment Period	Second Payment Period
Allocation Factors for each Customer Class (see Exhibit 3)	(See Exhibit 3)	(See Exhibit 3)
Projected MWh sales for each Customer Class for payment period (See Exhibit 3)	(See Exhibit 3)	(See Exhibit 3)
Percent of Consumers' revenue written off	0.135%	0.135%
Average Days Sales Outstanding	22.29	22.29
Ongoing Financing Costs for the applicable payment period (See Table 3 above)	\$331,318	\$241,447
Recovery Bond Principal	\$5,209,292	\$6,590,210
Recovery Bond Interest	\$4,087,776	\$2,796,730
Periodic Payment Requirement (See Exhibit 2)	\$9,628,386	\$9,628,386

Table 5 shows the initial Fixed Recovery Charges for each FRC Consumer Class:

TABLE 5: Fixed Recovery Charges		
Rate Group	Fixed Recovery Charges	¢/kWh
Residential Domestic	Non-CARE	0.053
Residential Domestic	FERA	0.000
Res/Dom Income Qualified	CARE	0.000
Small C&I (<20kW)	GS-1	0.040
Traffic Control	TC-1	0.070
Medium C&I (20 kW – 200 kW)	GS-2	0.040
Medium C&I (200 kW – 500 kW)	GS-3	0.034
Large C&I (Sec) includes standby customers	TOU-8-Sec	0.030
Large C&I (Pri) includes standby customers	TOU-8-Pri	0.027
Large C&I (Sub) includes standby customers	TOU-8-Sub	0.012
Small AG& Pump (< 200 kw)	AG&P < 200 KW	0.037
Large Ag& Pump (≥ 200 kw)	AG&P ≥ 200 KW	0.025
Street/Area Lighting	Street Light	0.008

Recovery Property:

Recovery Property is the property described in Public Utilities Code Section 850(b)(11) relating to the Fixed Recovery Charges set forth herein, including, without limitation, all of the following:

- (1) The right, title and interest in and to the Fixed Recovery Charges set forth herein, as adjusted from time to time.
- (2) The right to be paid the principal amount of the Recovery Bonds, together with interest thereon as the same become due as shown on Exhibit 2, together with all Ongoing Financing Costs as the same become due.
- (3) The right, title and interest in and to all revenues, collections, claims, payments, money, or proceeds of or arising from the Fixed Recovery Charges, as set forth herein.

February 17, 2021
Page 6

(4) All rights to obtain adjustments to the Fixed Recovery Charges under the True-Up Mechanism.

These Fixed Recovery Charges, as adjusted from time to time, shall remain in place until the total amounts in Exhibit 2 are paid in full to the owner of the Recovery Property, or its assignee(s).

Proposed Tariff Changes:

SCE will submit all tariff sheets reflecting the revised Fixed Recovery Charges shown in Table 5 in the consolidated revenue requirement and rate change advice letter for rates effective on June 1, 2021.

Effective Date:

In accordance with the Decision, unless before noon on the fourth business day after pricing the Commission issues an order finding that the proposed Recovery Bond issuance does not comply with the Financing Order, the Issuance Advice Letter and the Fixed Recovery Charges established by this Issuance Advice Letter will be effective automatically at noon on the fourth business day after pricing, and pursuant to Section 850.1(h), the Recovery Property established by the Financing Order, will come into being simultaneously with the sale of the Recovery Property to the SPE. The Fixed Recovery Charges will continue to be effective, unless they are changed by a subsequent True-Up Mechanism Advice Letter. All of the Recovery Property identified herein constitutes a current property right and will continuously exist as property for all purposes. Further all Upfront Financing Costs and Ongoing Financing Costs shall be recoverable as provided in the Financing Order.

Description of Exhibits:

Exhibit 1 presents the debt service schedule for the Recovery Bonds, including expected principal amortization, scheduled final payment dates and legal maturity dates, interest rates, and aggregate scheduled debt service per payment date.

Exhibit 2 presents the Periodic Payment Requirements related to the Recovery Bonds for the two payment periods following the Closing Date.

Exhibit 3 presents the Fixed Recovery Charges calculations.

Exhibit 4 presents the calculation of Pre-Securitization Debt Financing Costs.

Notice:

In accordance with General Order 96-B, Section 4.4, a copy of this advice letter is being sent electronically and via U.S. mail to parties shown on the attached list. Address changes should be directed to Kavita Srinivasan at Kavita.srinivasan@sce.com. Advice letter filings can also be accessed electronically at: <https://www.sce.com/regulatory/advice-letters>

Attachments

cc: Service List for A. 20-07-008

Exhibit 1

Recovery Bond Terms and Debt Service Schedule

Tranche	Expected Weighted Average Life	Principal Amount Offered	Scheduled Final Payment Date	Final Maturity Date	Interest Rate
A-1	5.68	137,783,000	11/15/2031	11/15/2033	0.861%
A-2	14.00	100,000,000	5/15/2038	5/15/2040	1.942%
A-3	20.16	100,000,000	11/15/2043	11/15/2045	2.510%
		337,783,000			

Tranche A-1

Payment Date	Principal Balance	Principal	Interest	Total Payment
2/24/2021	137,783,000			
11/15/2021	132,573,708	5,209,292	860,076	6,069,368
5/15/2022	125,983,498	6,590,210	570,730	7,160,940
11/15/2022	119,364,917	6,618,581	542,359	7,160,940
5/15/2023	112,717,843	6,647,074	513,866	7,160,940
11/15/2023	106,042,153	6,675,690	485,250	7,160,940
5/15/2024	99,337,725	6,704,428	456,511	7,160,939
11/15/2024	92,604,434	6,733,291	427,649	7,160,940
5/15/2025	85,842,156	6,762,278	398,662	7,160,940
11/15/2025	79,050,767	6,791,389	369,550	7,160,939
5/15/2026	72,230,141	6,820,626	340,314	7,160,940
11/15/2026	65,380,152	6,849,989	310,951	7,160,940
5/15/2027	58,500,674	6,879,478	281,462	7,160,940
11/15/2027	51,591,580	6,909,094	251,845	7,160,939
5/15/2028	44,652,742	6,938,838	222,102	7,160,940
11/15/2028	37,684,032	6,968,710	192,230	7,160,940
5/15/2029	30,685,322	6,998,710	162,230	7,160,940
11/15/2029	23,656,482	7,028,840	132,100	7,160,940
5/15/2030	16,597,383	7,059,099	101,841	7,160,940
11/15/2030	9,507,895	7,089,488	71,452	7,160,940
5/15/2031	2,387,887	7,120,008	40,931	7,160,939
11/15/2031	0	2,387,887	10,280	2,398,167

Tranche A-2

Payment Date	Principal Balance	Principal	Interest	Total Payment
2/24/2021	100,000,000			
11/15/2021	100,000,000	0	1,407,950	1,407,950
5/15/2022	100,000,000	0	971,000	971,000
11/15/2022	100,000,000	0	971,000	971,000
5/15/2023	100,000,000	0	971,000	971,000
11/15/2023	100,000,000	0	971,000	971,000
5/15/2024	100,000,000	0	971,000	971,000
11/15/2024	100,000,000	0	971,000	971,000
5/15/2025	100,000,000	0	971,000	971,000
11/15/2025	100,000,000	0	971,000	971,000
5/15/2026	100,000,000	0	971,000	971,000
11/15/2026	100,000,000	0	971,000	971,000
5/15/2027	100,000,000	0	971,000	971,000
11/15/2027	100,000,000	0	971,000	971,000
5/15/2028	100,000,000	0	971,000	971,000
11/15/2028	100,000,000	0	971,000	971,000
5/15/2029	100,000,000	0	971,000	971,000
11/15/2029	100,000,000	0	971,000	971,000
5/15/2030	100,000,000	0	971,000	971,000
11/15/2030	100,000,000	0	971,000	971,000
5/15/2031	100,000,000	0	971,000	971,000
11/15/2031	95,237,227	4,762,773	971,000	5,733,773
5/15/2032	88,030,041	7,207,186	924,753	8,131,939
11/15/2032	80,752,873	7,277,168	854,772	8,131,940
5/15/2033	73,405,044	7,347,829	784,110	8,131,939
11/15/2033	65,985,867	7,419,177	712,763	8,131,940
5/15/2034	58,494,650	7,491,217	640,723	8,131,940
11/15/2034	50,930,693	7,563,957	567,983	8,131,940
5/15/2035	43,293,290	7,637,403	494,537	8,131,940
11/15/2035	35,581,728	7,711,562	420,378	8,131,940
5/15/2036	27,795,287	7,786,441	345,499	8,131,940
11/15/2036	19,933,239	7,862,048	269,892	8,131,940
5/15/2037	11,994,851	7,938,388	193,552	8,131,940
11/15/2037	3,979,381	8,015,470	116,470	8,131,940
5/15/2038	0.00	3,979,381	38,640	4,018,021

Tranche A-3

Payment Date	Principal Balance	Principal	Interest	Total Payment
2/24/2021	100,000,000			
11/15/2021	100,000,000	0	1,819,750	1,819,750
5/15/2022	100,000,000	0	1,255,000	1,255,000
11/15/2022	100,000,000	0	1,255,000	1,255,000
5/15/2023	100,000,000	0	1,255,000	1,255,000
11/15/2023	100,000,000	0	1,255,000	1,255,000
5/15/2024	100,000,000	0	1,255,000	1,255,000
11/15/2024	100,000,000	0	1,255,000	1,255,000
5/15/2025	100,000,000	0	1,255,000	1,255,000
11/15/2025	100,000,000	0	1,255,000	1,255,000
5/15/2026	100,000,000	0	1,255,000	1,255,000
11/15/2026	100,000,000	0	1,255,000	1,255,000
5/15/2027	100,000,000	0	1,255,000	1,255,000
11/15/2027	100,000,000	0	1,255,000	1,255,000
5/15/2028	100,000,000	0	1,255,000	1,255,000
11/15/2028	100,000,000	0	1,255,000	1,255,000
5/15/2029	100,000,000	0	1,255,000	1,255,000
11/15/2029	100,000,000	0	1,255,000	1,255,000
5/15/2030	100,000,000	0	1,255,000	1,255,000
11/15/2030	100,000,000	0	1,255,000	1,255,000
5/15/2031	100,000,000	0	1,255,000	1,255,000
11/15/2031	100,000,000	0	1,255,000	1,255,000
5/15/2032	100,000,000	0	1,255,000	1,255,000
11/15/2032	100,000,000	0	1,255,000	1,255,000
5/15/2033	100,000,000	0	1,255,000	1,255,000
11/15/2033	100,000,000	0	1,255,000	1,255,000
5/15/2034	100,000,000	0	1,255,000	1,255,000
11/15/2034	100,000,000	0	1,255,000	1,255,000
5/15/2035	100,000,000	0	1,255,000	1,255,000
11/15/2035	100,000,000	0	1,255,000	1,255,000
5/15/2036	100,000,000	0	1,255,000	1,255,000
11/15/2036	100,000,000	0	1,255,000	1,255,000
5/15/2037	100,000,000	0	1,255,000	1,255,000
11/15/2037	100,000,000	0	1,255,000	1,255,000
5/15/2038	95,886,081	4,113,919	1,255,000	5,368,919
11/15/2038	87,702,511	8,183,570	1,203,370	9,386,940
5/15/2039	79,416,238	8,286,273	1,100,667	9,386,940
11/15/2039	71,025,972	8,390,266	996,674	9,386,940
5/15/2040	62,530,408	8,495,564	891,376	9,386,940
11/15/2040	53,928,225	8,602,183	784,757	9,386,940
5/15/2041	45,218,084	8,710,141	676,799	9,386,940
11/15/2041	36,398,631	8,819,453	567,487	9,386,940

5/15/2042	27,468,494	8,930,137	456,803	9,386,940
11/15/2042	18,426,284	9,042,210	344,730	9,386,940
5/15/2043	9,270,594	9,155,690	231,250	9,386,940
11/15/2043	0	9,270,594	116,346	9,386,940

Total Debt Service

Payment Date	Principal Balance	Principal	Interest	Total Payment
2/24/2021	337,783,000			
11/15/2021	332,573,708	5,209,292	4,087,776	9,297,068
5/15/2022	325,983,498	6,590,210	2,796,730	9,386,940
11/15/2022	319,364,917	6,618,581	2,768,359	9,386,940
5/15/2023	312,717,843	6,647,074	2,739,866	9,386,940
11/15/2023	306,042,153	6,675,690	2,711,250	9,386,940
5/15/2024	299,337,725	6,704,428	2,682,511	9,386,939
11/15/2024	292,604,434	6,733,291	2,653,649	9,386,940
5/15/2025	285,842,156	6,762,278	2,624,662	9,386,940
11/15/2025	279,050,767	6,791,389	2,595,550	9,386,939
5/15/2026	272,230,141	6,820,626	2,566,314	9,386,940
11/15/2026	265,380,152	6,849,989	2,536,951	9,386,940
5/15/2027	258,500,674	6,879,478	2,507,462	9,386,940
11/15/2027	251,591,580	6,909,094	2,477,845	9,386,939
5/15/2028	244,652,742	6,938,838	2,448,102	9,386,940
11/15/2028	237,684,032	6,968,710	2,418,230	9,386,940
5/15/2029	230,685,322	6,998,710	2,388,230	9,386,940
11/15/2029	223,656,482	7,028,840	2,358,100	9,386,940
5/15/2030	216,597,383	7,059,099	2,327,841	9,386,940
11/15/2030	209,507,895	7,089,488	2,297,452	9,386,940
5/15/2031	202,387,887	7,120,008	2,266,931	9,386,939
11/15/2031	195,237,227	7,150,660	2,236,280	9,386,940
5/15/2032	188,030,041	7,207,186	2,179,753	9,386,939
11/15/2032	180,752,873	7,277,168	2,109,772	9,386,940
5/15/2033	173,405,044	7,347,829	2,039,110	9,386,939
11/15/2033	165,985,867	7,419,177	1,967,763	9,386,940
5/15/2034	158,494,650	7,491,217	1,895,723	9,386,940
11/15/2034	150,930,693	7,563,957	1,822,983	9,386,940
5/15/2035	143,293,290	7,637,403	1,749,537	9,386,940
11/15/2035	135,581,728	7,711,562	1,675,378	9,386,940
5/15/2036	127,795,287	7,786,441	1,600,499	9,386,940
11/15/2036	119,933,239	7,862,048	1,524,892	9,386,940
5/15/2037	111,994,851	7,938,388	1,448,552	9,386,940
11/15/2037	103,979,381	8,015,470	1,371,470	9,386,940
5/15/2038	95,886,081	8,093,300	1,293,640	9,386,940
11/15/2038	87,702,511	8,183,570	1,203,370	9,386,940
5/15/2039	79,416,238	8,286,273	1,100,667	9,386,940
11/15/2039	71,025,972	8,390,266	996,674	9,386,940
5/15/2040	62,530,408	8,495,564	891,376	9,386,940
11/15/2040	53,928,225	8,602,183	784,757	9,386,940
5/15/2041	45,218,084	8,710,141	676,799	9,386,940

11/15/2041	36,398,631	8,819,453	567,487	9,386,940
5/15/2042	27,468,494	8,930,137	456,803	9,386,940
11/15/2042	18,426,284	9,042,210	344,730	9,386,940
5/15/2043	9,270,594	9,155,690	231,250	9,386,940
11/15/2043	0	9,270,594	116,346	9,386,940

Exhibit 2
Periodic Payment Requirements

The total amount payable to the owner of the Recovery Property, or its assignee(s), pursuant to this issuance advice letter is a \$337,783,000 principal amount, plus interest on such principal amount, plus Ongoing Financing Costs, to be obtained from Fixed Recovery Charges calculated in accordance with the Decision.

The Fixed Recovery Charges shall be adjusted from time to time, at least annually, via the Routine True-Up Mechanism Advice Letter and Non-Routine True-Up Mechanism Advice Letter in accordance with the Decision.

The following amounts are scheduled to be paid by the Bond Trustee from Fixed Recovery Charges it has received during the two Payment Periods following the Closing Date. These payment amounts include principal plus interest and plus other Ongoing Financing Costs.

<u>Payment Period</u>	<u>Recovery Bond Payments (See Exhibit 1)</u>	<u>Ongoing Financing Costs (See Table 3)</u>	<u>Periodic Payment Requirement</u>
<u>First Payment Period</u>	\$9,297,068	\$331,318	\$9,628,386
<u>Second Payment Period</u>	\$9,386,940	\$241,447	\$9,628,386

Exhibit 3 Fixed Recovery Charges Calculations

Rate Group	GRC Allocation Factor	Periodic Billing Requirement (\$)	Billing Requirement per Rate Group (\$)	Period 1 Forecasted Billing Determinants (MWh)	Period 2 Forecasted Billing Determinants (MWh)	Period 1 Fixed Recovery Charge (c/kWh)	Period 2 Fixed Recovery Charge (c/kWh)	New Fixed Recovery Charge (c/kWh)
Res-D	39.07%	9,628,386	3,761,990	7,118,814	8,341,327	0.053	0.046	0.053
Res-CARE	0.00%	9,628,386	0	3,936,844	4,228,115	0.000	0.000	0.000
GS-1	8.60%	9,628,386	828,033	2,106,434	2,602,786	0.040	0.032	0.040
TC-1	0.14%	9,628,386	13,320	19,296	28,492	0.070	0.047	0.070
GS-2	19.93%	9,628,386	1,918,745	4,880,887	5,721,942	0.040	0.034	0.040
TOU-GS-3	9.23%	9,628,386	888,564	2,621,068	3,232,451	0.034	0.028	0.034
TOU-8-S	8.86%	9,628,386	853,065	2,854,166	3,572,385	0.030	0.024	0.030
TOU-8-P	5.27%	9,628,386	507,176	1,908,632	2,428,709	0.027	0.022	0.027
TOU-8-T	2.62%	9,628,386	252,720	2,199,483	2,870,026	0.012	0.009	0.012
TOU-8-S-S	0.22%	9,628,386	21,531	68,481	87,811	0.030	0.024	0.030
TOU-8-S-P	0.76%	9,628,386	73,067	241,268	296,158	0.027	0.022	0.027
TOU-8-S-T	1.08%	9,628,386	104,360	864,215	1,257,395	0.012	0.009	0.012
TOU-PA-2	2.50%	9,628,386	240,787	861,699	655,208	0.028	0.037	0.037
TOU-PA-3	1.57%	9,628,386	150,937	625,770	618,566	0.025	0.025	0.025
STLT	0.15%	9,628,386	14,092	185,837	281,059	0.008	0.006	0.008
100.00%		9,628,386						

Exhibit 4
Calculation of Pre-Securitization Debt Financing Costs

Pre-Securitization Debt Financing Costs	Amount
Long-term Cost of Debt From August 1, 2019 to March 10, 2020	\$1,430,458
Bridge Financing Cost From March 11, 2020 to Closing Date ¹	3,410,468
TOTAL ESTIMATED PRE-SECURITIZATION DEBT FINANCING COSTS	\$4,840,926

¹ Updated financing costs reflects the interest expense up to the Closing Date.



California Public Utilities Commission



ADVICE LETTER SUMMARY

ENERGY UTILITY

MUST BE COMPLETED BY UTILITY (Attach additional pages as needed)

Company name/CPUC Utility No.:

Utility type:

- ELC GAS WATER
 PLC HEAT

Contact Person:

Phone #:
 E-mail:
 E-mail Disposition Notice to:

EXPLANATION OF UTILITY TYPE

ELC = Electric GAS = Gas WATER = Water
 PLC = Pipeline HEAT = Heat

(Date Submitted / Received Stamp by CPUC)

Advice Letter (AL) #:

Tier Designation:

Subject of AL:

Keywords (choose from CPUC listing):

AL Type: Monthly Quarterly Annual One-Time Other:

If AL submitted in compliance with a Commission order, indicate relevant Decision/Resolution #:

Does AL replace a withdrawn or rejected AL? If so, identify the prior AL:

Summarize differences between the AL and the prior withdrawn or rejected AL:

Confidential treatment requested? Yes No

If yes, specification of confidential information:
 Confidential information will be made available to appropriate parties who execute a nondisclosure agreement. Name and contact information to request nondisclosure agreement/ access to confidential information:

Resolution required? Yes No

Requested effective date: No. of tariff sheets:

Estimated system annual revenue effect (%):

Estimated system average rate effect (%):

When rates are affected by AL, include attachment in AL showing average rate effects on customer classes (residential, small commercial, large C/I, agricultural, lighting).

Tariff schedules affected:

Service affected and changes proposed¹:

Pending advice letters that revise the same tariff sheets:

¹Discuss in AL if more space is needed.

Protests and all other correspondence regarding this AL are due no later than 20 days after the date of this submittal, unless otherwise authorized by the Commission, and shall be sent to:

CPUC, Energy Division
Attention: Tariff Unit
505 Van Ness Avenue
San Francisco, CA 94102
Email: EDTariffUnit@cpuc.ca.gov

Name:
Title:
Utility Name:
Address:
City:
State: Zip:
Telephone (xxx) xxx-xxxx:
Facsimile (xxx) xxx-xxxx:
Email:

Name:
Title:
Utility Name:
Address:
City:
State: Zip:
Telephone (xxx) xxx-xxxx:
Facsimile (xxx) xxx-xxxx:
Email:

ENERGY Advice Letter Keywords

Affiliate	Direct Access	Preliminary Statement
Agreements	Disconnect Service	Procurement
Agriculture	ECAC / Energy Cost Adjustment	Qualifying Facility
Avoided Cost	EOR / Enhanced Oil Recovery	Rebates
Balancing Account	Energy Charge	Refunds
Baseline	Energy Efficiency	Reliability
Bilingual	Establish Service	Re-MAT/Bio-MAT
Billings	Expand Service Area	Revenue Allocation
Bioenergy	Forms	Rule 21
Brokerage Fees	Franchise Fee / User Tax	Rules
CARE	G.O. 131-D	Section 851
CPUC Reimbursement Fee	GRC / General Rate Case	Self Generation
Capacity	Hazardous Waste	Service Area Map
Cogeneration	Increase Rates	Service Outage
Compliance	Interruptible Service	Solar
Conditions of Service	Interutility Transportation	Standby Service
Connection	LIIE / Low-Income Energy Efficiency	Storage
Conservation	LIRA / Low-Income Ratepayer Assistance	Street Lights
Consolidate Tariffs	Late Payment Charge	Surcharges
Contracts	Line Extensions	Tariffs
Core	Memorandum Account	Taxes
Credit	Metered Energy Efficiency	Text Changes
Curtable Service	Metering	Transformer
Customer Charge	Mobile Home Parks	Transition Cost
Customer Owned Generation	Name Change	Transmission Lines
Decrease Rates	Non-Core	Transportation Electrification
Demand Charge	Non-firm Service Contracts	Transportation Rates
Demand Side Fund	Nuclear	Undergrounding
Demand Side Management	Oil Pipelines	Voltage Discount
Demand Side Response	PBR / Performance Based Ratemaking	Wind Power
Deposits	Portfolio	Withdrawal of Service
Depreciation	Power Lines	

Kentucky Power Company
KPSC Case No. 2023-00159
Commission Staff's Fifth Set of Data Requests
Dated October 6, 2023
Page 1 of 2

DATA REQUEST

KPSC 5_26 Refer to Kentucky Power's response to Staff's Fourth Request, Item 27(b) and KRS 278.110, which states that the Commission may employ employees to conduct an examination to perform the duties and exercise the powers conferred by law upon the Commission. Additionally, refer to Commission regulation 807 KAR 5:001, Section 4(12)(b), which states that Commission Staff may request information from any party to a case on the Commission's behalf (emphasis added). Finally, refer to Case No. 2011-00433,9 which addresses Commission Staff's role in cases before the Commission: "We remind the parties that Commission Staff is not a party to this proceeding. The task of the Staff is to conduct investigations to facilitate a thorough exploration of the interests and issues involved. The traditional role of the Commission Staff is 'generally to analyze the evidence and advise the Commission.'" The response is nonresponsive. Provide the requested information.

RESPONSE

Historically, the majority of rate reduction bonds priced to an interpolated swap rate (LIBOR-related referenced pricing). With the end of LIBOR, the rate reduction bond market converted from pricing to the swap rate to pricing to either the Treasury Rate with a maturity that is closest to the duration of the relative class (Treasuries) or the i-CURVE (interpolated Treasury Rate) with a duration that matches the weighted average life of the class of bonds. As you can see in the list of the 10 most recent rate reduction bonds issued, the majority of the transactions have priced to Treasuries. The recent exception was the PG&E transaction which priced to the i-CURVE given the long maturity, size of transaction and number of classes being placed with the market. Based on market conditions at this time and the size of the Kentucky Power transaction, it is expected that this transaction will price to Treasuries.

1. SIGECO Securitization I LLC (SIGECO) 2023-A: Treasuries
2. Atmos Energy Kansas Securitization I LLC (ATO) 2023-A: Treasuries
3. SCE Recovery Funding LLC (SCERF) 2023-A: Treasuries
4. Louisiana Local Government Environmental Facilities and Community Development Authority (LCDA) 2023-ELL: Treasuries
5. Texas Natural Gas Securitization Finance Corp (TNGSFC) 2023: Treasuries
6. Louisiana Local Government Environmental Facilities and Community Development Authority (LCDA) 2022-ENO: Treasuries
7. Brazos Securitization LLC (BRELPO) 2022: Treasuries

Kentucky Power Company
KPSC Case No. 2023-00159
Commission Staff's Fifth Set of Data Requests
Dated October 6, 2023
Page 2 of 2

8. CoServ Securitization LLC (COSERV) 2022: Treasuries
9. United Electric Securitization LLC (UNIELC) 2022: Treasuries
10. PG&E Wildfire Recovery Funding LLC (PCG) 2022-B: i-CURVE

None of the marketing materials or Bloomberg marketing messages will typically include a list of securities for investors to review as pricing comparables. Instead, initial pricing thoughts, typically presented as a range or “area,” will be consolidated and agreed upon amongst the underwriting bank group, and those initial price thoughts will be distributed via Bloomberg. If engaged as an underwriter, Goldman Sachs will reference the following sources to inform pricing thoughts: (i) recent rate reduction bond new issue pricing, (ii) secondary market trading levels for rate reduction bonds, and (iii) bond indexes for corporates, ABS, municipal bonds. If there have been no recent rate reduction bond issuances, underwriting banks may look to recent new issue corporate, ABS and/or municipal bonds that are of a similar rating and duration to inform initial price thoughts.

Witness: Katrina Niehaus

Kentucky Power Company
KPSC Case No. 2023-00159
Commission Staff's Fifth Set of Data Requests
Dated October 6, 2023

DATA REQUEST

KPSC 5_27 Refer to Kentucky Power's response to Staff's Fourth Request, Item 29(c) and KRS 278.110, which states that the Commission may employ employees to conduct an examination to perform the duties and exercise the powers conferred by law upon the Commission. Additionally, refer to Commission regulation 807 KAR 5:001, Section 4(12)(b), which states that Commission Staff may request information from any party to a case on the Commission's behalf (emphasis added). Finally, refer to Case No. 2011-00433,10 which addresses Commission Staff's role in cases before the Commission: "We remind the parties that Commission Staff is not a party to this proceeding. The task of the Staff is to conduct investigations to facilitate a thorough exploration of the interests and issues involved. The traditional role of the Commission Staff is 'generally to analyze the evidence and advise the Commission.'" The response was nonresponsive. Provide the requested information, with a request for confidential protection if necessary.

RESPONSE

Goldman Sachs' compliance policy precludes it from providing oversubscription levels on prior deals due to confidentiality concerns. However, Goldman Sachs can confirm that throughout the various phases of syndicating the bonds, Goldman Sachs has optimized oversubscription and pricing. In addition to compliance concerns, Goldman Sachs does not share other issuers' subscription levels, and to the extent we are an underwriter for the upcoming transaction, Goldman Sachs would make sure to not share Kentucky Power's subscription levels to outside parties.

Witness: Katrina Niehaus

Kentucky Power Company
KPSC Case No. 2023-00159
Commission Staff's Fifth Set of Data Requests
Dated October 6, 2023

DATA REQUEST

KPSC 5_28 Refer to Kentucky Power's response to Staff's Fourth Request, Item 29(d) and KRS 278.110, which states that the Commission may employ employees to conduct an examination to perform the duties and exercise the powers conferred by law upon the Commission. Additionally, refer to Commission regulation 807 KAR 5:001, Section 4(12)(b), which states that Commission Staff may request information from any party to a case on the Commission's behalf (emphasis added). Finally, refer to Case No. 2011-00433, which addresses Commission Staff's role in cases before the Commission: "We remind the parties that Commission Staff is not a party to this proceeding. The task of the Staff is to conduct investigations to facilitate a thorough exploration of the interests and issues involved. The traditional role of the Commission Staff is 'generally to analyze the evidence and advise the Commission.'" The response did not provide supporting documentation as requested. Provide the supporting documentation.

RESPONSE

Oversubscription is not a mathematical exercise with respect to final pricing. Investors can and will have their own thoughts about pricing stipulations and allocations that will influence whether they decide to buy bonds at a certain price, and they may or may not share that information with the underwriting banks. For example, it is possible that a book would be 3x oversubscribed at a spread of 100 basis points, but each of the investors internally have decided that they will not buy under 95. In this scenario, if the underwriters attempt to tighten to 95, the book would still be 3x oversubscribed, but the subscription level would drop to zero if the underwriters attempted to tighten to 90. In reality, while underwriters try to get as much information from investors as possible about contingencies around their orders, the information sharing is never 100% transparent. Investors are not required to and in practice will not share the minimum price that they would pay for bonds. Underwriting banks need to make sure that an order book remains fully subscribed at the final pricing to avoid a failed deal. Additionally, if banks cut pricing too deep and a book falls apart, this puts the issuer in a weak position where they are begging investors to come back into the transaction. Using the hypothetical scenario above, once the book drops to zero subscription at 90, investors will know the issuer is in a vulnerable position, and therefore may widen their required price beyond a 100 spread to come back in. In that case, aggressive price testing will have resulted in an all-in worse result for the issuer, which in this instance would lead to high securitized surcharges being assessed to customers.

Witness: Katrina Niehaus

Kentucky Power Company
KPSC Case No. 2023-00159
Commission Staff's Fifth Set of Data Requests
Dated October 6, 2023

DATA REQUEST

KPSC 5_29 Refer to Kentucky Power's response to Staff's Fourth Request Item 30, and Kentucky Power's response to Staff's Second Request, Item 67, Attachments 1 through 7.

- a. Confirm that none of these financing orders authorized the Commission's outside counsel, advisors or other consultants engaged by the commission to direct the placement of securitized bonds.
- b. Confirm that in none of these prior AEP affiliate transactions did the Commission's outside counsel, advisors or other consultants engaged by the commission in fact directed the placement of securitized bonds.

RESPONSE

- a. Counsel for the Company are not licensed in the states in which these orders were issued and, as such, cannot provide legal advice or opinion on the applicable laws, and are otherwise unfamiliar with the proceedings referenced in the question. The Company confirms that none of the referenced financing orders appears to contain language that authorizes the Commission's outside counsel, advisors or other consultants engaged by the commission to "direct the placement of" securitized bonds.
- b. Please see the Company's response to subpart (a). The Company is unaware whether the Commission's outside counsel, advisors or other consultants engaged by the commission in fact directed the placement of securitized bonds.

Witness: Katrina Niehaus

Preparer: Counsel (as to subpart a)

Kentucky Power Company
KPSC Case No. 2023-00159
Commission Staff's Fifth Set of Data Requests
Dated October 6, 2023
Page 1 of 2

DATA REQUEST

KPSC 5_30 Refer to Kentucky Power's response to Staff's Fourth Request, Item 31.

- a. Provide a list of all prior securitized ratepayer-backed bond transactions for which Goldman was an underwriter and purchased bonds that were not fully subscribed at final pricing. Include the amount of bonds purchased by Goldman in each case.
- b. Identify specific current regulations in the United States under which underwriters are only permitted to take bonds into inventory with the intent to resell them into the market, so the underwriter would be required to sell the bonds, even if at a loss.
- c. Identify circumstances under which an underwriter may take bonds into inventory without intent to resell them into the market.
- d. When an underwriter takes some bonds into inventory, identify current regulations in the United States which require that underwriter to reconfirm trades.
- e. Describe whether the need to reconfirm trades can be avoided by disclosing in the original offering document that the underwriter may take some bonds into inventory and the potential consequences if the underwriter sold the retained bonds all at once.
- f. Identify any prior securitized ratepayer-backed bond transactions in which one or more investors have dropped out of a trade altogether after learning that an underwriter has taken bonds into inventory.

RESPONSE

- a. Goldman Sachs' legal and compliance policy does not permit Goldman Sachs to share orderbook details, including subscription levels.
- b. Recent changes to Regulation M¹ limit the ability of underwriters to take bonds into inventory. Prior to the recent update, utility securitization bond transactions were exempt from Regulation M, and while Goldman Sachs is still evaluating the full impact of the rule

¹ Removal of References to Credit Ratings from Regulation M, SEC Release No. 34-97657 (June 7, 2023).

Kentucky Power Company
KPSC Case No. 2023-00159
Commission Staff's Fifth Set of Data Requests
Dated October 6, 2023
Page 2 of 2

changes, should another exemption not be available, it will be unlawful for a distribution participant, including an underwriter, or an affiliated purchaser of such person, to bid for, purchase, or attempt to induce any person to bid for or purchase, the bonds during the period that commences five business days prior to through the completion of the distribution of the bonds.

c. Under the Section 2(a)(11) of the Securities Act of 1933, as amended, an underwriter means “any person who has purchased from an issuer view to, or offers or sells for an issuer in connection with, the distribution of [a] security.” An entity that acquires bonds without an intent to resell them into the market would not be acting as an underwriter.

d. Investors often stipulate in their orders that the bonds be sold at a market clearing price, i.e. that the bonds have been fully sold to investors. Therefore, to the extent an underwriter were going to take any bonds into inventory, it would have a contractual obligation to reconfirm the trade.

e. It is my view that the need to reconfirm trades would not be eliminated even there was general disclosure informing investors that underwriters may hold a certain amount of bonds because syndicate would need to disclose the exact amount the underwriter was retaining with accounts and then reconfirm the trades.

f. Goldman Sachs has not participated in any transactions in the rate reduction bond space where underwriters have retained unsold bonds, and therefore, Goldman Sachs is not aware of a rate reduction bond transaction where investors may have dropped out of a trade after learning underwriters were retaining unsold bonds.

Witness: Katrina Niehaus

Kentucky Power Company
KPSC Case No. 2023-00159
Commission Staff's Fifth Set of Data Requests
Dated October 6, 2023

DATA REQUEST

KPSC 5_31 Provide of any lowest cost certifications that AEP, or any of its affiliates, have provided in past securitization transactions.

RESPONSE

See KPCO_R_KPSC_5_31_Attachment1 Appendix A page 17 of 17.

Witness: Franz D. Messner

DOCKET NO. 49308

**APPLICATION OF AEP TEXAS INC. § PUBLIC UTILITY COMMISSION
FOR A FINANCING ORDER §
§ OF TEXAS**

FINANCING ORDER

TABLE OF CONTENTS

I.	DISCUSSION AND STATUTORY OVERVIEW	5
II.	DESCRIPTION OF PROPOSED TRANSACTION.....	13
III.	FINDINGS OF FACT	19
A.	Identification and Procedure.....	19
1.	Identification of Applicant and Background	19
2.	Procedural History	20
3.	Notice of Application	21
B.	Qualified Costs and Amount to be Securitized.....	21
1.	Identification.....	21
2.	Accumulated Deferred Federal Income Tax Benefits	23
3.	Balance to be Securitized.....	23
4.	Issuance Advice Letter	25
5.	Tangible and Quantifiable Benefit.....	26
6.	Present Value Cap.....	27
7.	Total Amount of Revenue to be Recovered	28
C.	Structure of the Proposed Securitization	29
1.	BondCo.....	29
2.	Credit Enhancement and Arrangements to Enhance Marketability	31
3.	Transition Property	32
4.	Servicer and the Servicing Agreement	33
5.	Retail Electric Providers	35
6.	System Restoration Bonds.....	42
7.	Security for System Restoration Bonds	43
8.	General Provisions.....	46
9.	System Restoration Charges—Imposition and Collection, Nonbypassability, and Self-Generation.....	47
10.	Allocation of Qualified Costs Among Texas Retail Customers.....	49
11.	True-Up of System Restoration Charges.....	50
12.	Interim True-Up.....	52

13. Non-Standard True-Up52
14. Additional True-Up Provisions.....54
15. Designated Representative.....55
16. Lowest System Restoration Bond Charges.....56

D. Use of Proceeds58
E. Informal Disposition.....58

IV. CONCLUSIONS OF LAW59

V. ORDERING PARAGRAPHS67

A. Approval67
B. System Restoration Charges70
C. System Restoration Bonds.....72
D. Servicing77
E. Retail Electric Providers80
F. Structure of the Securitization82
G. Use of Proceeds82
H. Miscellaneous Provisions82

Appendix A Form of Issuance Advice Letter
Appendix B Form of Tariff (Schedule SRC and Rider SRC)
Appendix C Projected Up-Front and Ongoing Qualified Costs
Appendix D ADFIT Credit Tariff
Appendix E Billing Thresholds to Determine Whether a Non-Standard True-up is Triggered

Docket No. 49308

Financing Order

Page 2 of 86

securitization. On May 9, 2019, AEP Texas and Commission Staff submitted a settlement agreement that resolves certain issues between the parties to this proceeding. As discussed in this Financing Order, the Commission finds that AEP Texas's application for approval of the securitization transaction should be approved, as modified by the settlement agreement, to the extent provided in this Financing Order. The Commission also finds that the securitization approved in this Financing Order meets all applicable requirements of PURA.

In accordance with the terms of this Financing Order, the Commission (1) approves the securitization of the sum of (i) the securitizable balance, plus (ii) up-front qualified costs as described in ordering paragraph number two; (2) approves the structure of the proposed securitization financing and issuance of system restoration bonds in one or more series; (3) approves system restoration charges in an amount to be calculated as provided in this Financing Order; (4) approves the form of tariff as provided in this Financing Order to implement those system restoration charges and the form of the ADFIT credit tariff to implement the ADFIT credit; and (5) finds that the potential benefits of (a) floating-rate notes and interest-rate swaps within the bond structure, (b) the issuance of system restoration bonds denominated in foreign currencies, and (c) the use of interest-rate hedges will not outweigh the incremental risk to customers; therefore, the Commission concludes that floating-rate notes and interest-rate swaps should not be utilized within the system restoration bond structure and that AEP Texas should not be authorized to issue system restoration bonds denominated in a foreign currency, or which bear interest at a floating rate, or use interest-rate hedges. In addition, the Commission designates its representative to act in the manner provided for under the terms of this Financing Order.

To approve the securitization of the system restoration costs, the Commission must consider whether the proposed securitization meets the financial tests set forth in PURA chapter 36, subchapter I and chapter 39, subchapter G. The three financial tests require that (1) the total revenues collected under this Financing Order are less than the revenues collected using conventional financing methods (total revenues test),⁵ (2) the securitization of the system restoration costs provides greater tangible and quantifiable benefits to ratepayers than would have been achieved without the issuance of the system restoration bonds (tangible and quantifiable

⁵ PURA § 39.303(a).

benefits test),⁶ and (3) the amount securitized does not exceed the present value of the revenue requirement over the life of the proposed system restoration bonds associated with the system restoration costs sought to be securitized (present value test).⁷

AEP Texas submitted evidence demonstrating that the proposed securitization will meet each of the financial tests set forth in PURA chapter 36, subchapter I and PURA chapter 39, subchapter G. All of the calculations performed by AEP Texas demonstrated that the transaction would pass these tests. Considering the magnitude of the margin by which the proposed securitization passes the various tests, the Commission declines to determine a particular number for each benefit conferred by the securitization. Accordingly, in quantifying the benefit to ratepayers as a result of this securitization, the Commission refers to the ranges of benefits calculated under AEP Texas's expected-case scenario, in which the system restoration bonds bear a 3.48% weighted-average interest rate, and a worst-case scenario, in which the bonds are subject to a 6.00% weighted-average interest rate.

AEP Texas's evidence shows that as a result of the securitization approved by this Financing Order, ratepayers in the AEP Texas central division's service area (which are the sole ratepayers of AEP Texas responsible for paying system restoration charges) will realize benefits. Based on the amount that AEP Texas seeks to securitize, AEP Texas's financial analysis indicated that such ratepayers will realize benefits estimated to be approximately \$19.7 million on a present value basis in the worst-case scenario, or approximately \$19.9 million considering the adjustment to the cap on qualified costs included in the settlement agreement. At the expected weighted-average interest rate of 3.48%, securitization confers benefits of approximately \$52.4 million on a present-value basis, or approximately \$52.6 million considering the adjustment to the cap on qualified costs included in the settlement agreement. In addition, under the worst-case scenario, the securitization will result in a reduction in the amount of revenues collected by AEP Texas from retail customers in AEP Texas's central division of approximately \$26.8 million, on a nominal basis, or approximately \$27.1 million considering the adjustment to the cap on qualified costs included in the settlement agreement, when compared to the amount that would have been collected under conventional financing methods that would otherwise be used to recover the costs.

⁶ PURA §§ 39.301 and 36.401(b)(2).

⁷ PURA § 39.301.

Docket No. 49308

Financing Order

Page 4 of 86

In the expected case, the securitization will result in a reduction in the amount of revenues collected by AEP Texas's central division of approximately \$62.9 million, on a nominal basis, or approximately \$63.2 million, considering the adjustment to the cap on qualified costs included in the settlement agreement.⁸ Accordingly, the Commission concludes that the benefits for ratepayers set forth in AEP Texas's evidence are fully indicative of the benefits that ratepayers will realize from the securitization approved here. Also, in the issuance advice letter, AEP Texas will be required to update the benefit analyses to verify that the final structure of the securitization satisfies the statutory financial tests.

AEP Texas provided a general description of the proposed transaction structure in its application and in the evidence submitted in support of its application. The proposed transaction structure does not contain every relevant detail and, in certain places, uses only approximations of certain costs and requirements. The final transaction structure will depend, in part, upon the requirements of the nationally-recognized credit rating agencies which will rate the system restoration bonds and, in part, upon the market conditions that exist at the time the system restoration bonds are taken to the market.

While the Commission recognizes the need for some degree of flexibility with regard to the final details of the securitization transaction approved in this Financing Order, its primary focus is upon the statutory requirements—the most important of which is to ensure that securitization results in tangible and quantifiable benefits to ratepayers—that must be met before issuing a financing order.

In view of these obligations, the Commission has established certain criteria in this Financing Order that must be met in order for the approvals and authorizations granted in this Financing Order to become effective. This Financing Order grants authority to issue system restoration bonds and to impose, collect, and receive system restoration charges only if the final structure of the securitization transaction complies in all material respects with these criteria. The authority and approval granted in this Financing Order is effective as to each issuance upon, but only upon, AEP Texas filing with the Commission an issuance advice letter demonstrating compliance of that issuance with the provisions of this Financing Order. If market conditions

⁸ See Direct Testimony of Randall W. Hamlett at 12.

make it desirable to issue the system restoration bonds in more than one series, then the authority and approval in this Financing Order is effective as to each issuance, but only upon AEP Texas filing with the Commission a separate issuance advice letter for that issuance demonstrating compliance with the provisions of this Financing Order.

I. Discussion and Statutory Overview

The Texas Legislature amended PURA in 2009 to permit electric utilities to use securitization financing to recover costs of restoring service and infrastructure associated with electric power outages as a result of hurricanes and other weather-related events or natural disasters that occurred in 2008 or later.⁹ The Legislature provided this option for recovering qualified costs based on the conclusion that securitized financing will lower the carrying costs associated with recovery of these costs relative to the costs that would be incurred using conventional utility financing methods.¹⁰ As a precondition to the use of securitization, the Legislature required that the Commission must ensure that the securitization will provide greater tangible and quantifiable benefits to ratepayers than would have been achieved without issuance of the system restoration bonds.¹¹ Consequently, a basic purpose of securitization financing—the recovery of an electric utility's qualified costs—is conditioned upon the other basic purpose—providing economic benefits to electricity ratepayers in this state. The provisions for securitization of system restoration costs were based on and incorporate relevant terms of the provisions in chapter 39, subchapter G of PURA for securitization of transition costs adopted by the Texas Legislature in 1999, which have been used by AEP Texas and other electric utilities to reduce the costs of recovering costs associated with the transition to competition.¹²

Under chapter 36, subchapter I of PURA, the qualified costs eligible for securitization by AEP Texas include (1) the distribution-related system restoration costs as determined by the Commission in Docket No. 48577 (the proceeding to determine the amount of AEP Texas's system

⁹ PURA § 36.401(a).

¹⁰ *Id.*

¹¹ PURA § 36.401(b)(2).

¹² See, e.g., *Application of CenterPoint Energy Houston Electric, LLC for Financing Order*, Docket No. 30485, Financing Order (Mar. 16, 2005); *Application of AEP Texas Central Company for a Financing Order*, Docket No. 32475, Financing Order (June 21, 2006); *Application of CenterPoint Energy Houston Electric, LLC for Financing Order*, Docket No. 34448, Financing Order (Sept. 18, 2007).

Docket No. 49308

Financing Order

Page 6 of 86

restoration costs), net of any insurance proceeds, government grants, or other sources of funding, also as determined in Docket No. 48577, that compensate AEP Texas for system restoration costs received by AEP Texas at the time of the application for this Financing Order, and a further offset utilizing certain excess unprotected ADFIT, as prescribed in Docket No. 48577, with carrying costs on the unrecovered balance of Hurricane Harvey-related system restoration costs, calculated as approved in Docket No. 48577; (2) costs of issuing, supporting and servicing the system restoration bonds and any costs of retiring and refunding existing debt and equity securities in connection with issuance of the bonds; (3) costs to the Commission of acquiring professional services for the purposes of evaluating the proposed transaction; and (4) costs associated with ancillary agreements such as bond insurance policies, letters of credit, reserve accounts, surety bonds, swap arrangements, hedging arrangements, liquidity or credit support arrangements or other financial arrangements entered into in connection with the issuance or payment of the transition bonds.¹³ Chapter 36, subchapter I of PURA also expressly provides (i) that the term transition bonds, as defined and used in chapter 39, subchapter G of PURA, includes bonds issued under chapter 36 (which we refer to herein as system restoration bonds),¹⁴ (ii) that the term transition charges, as defined and used in subchapter G, includes all nonbypassable amounts approved by the Commission under a financing order to recover system restoration costs, which we refer to herein as system restoration charges,¹⁵ (iii) that the term financing order as defined and used in chapter 39, subchapter G of PURA, includes a financing order authorizing the securitization of system restoration costs, and (iv) that the provisions of chapter 39, subchapter G of PURA (i.e., the provisions with respect to the issuances of transition bonds, the imposition of transition charges, and the creation of transition property) must govern financing orders allowing for securitization of system restoration costs and all rights and interests established in such order, except to the extent that such provisions conflict with the provisions of PURA chapter 36, subchapter I, in which case the latter provisions must control.¹⁶

¹³ PURA § 36.403(d).

¹⁴ PURA § 36.403(e).

¹⁵ PURA § 36.403(f).

¹⁶ PURA § 36.403(b).

To allow for securitization of an electric utility's qualified costs associated with system restoration costs, the Commission may authorize the issuance of transition bonds known as system restoration bonds. Transition bonds are generally defined as evidences of indebtedness or ownership that are issued under a financing order, are limited to a term of not longer than 15 years, and are secured by or payable from transition property, which includes all rights and interests of an electric utility under a financing order at the time such rights are transferred to an assignee or pledged in connection with the issuance of transition bonds.¹⁷ The net proceeds from the sale of system restoration bonds must be used to reduce the amount of a utility's recoverable system restoration costs.¹⁸ If system restoration bonds are approved and issued, retail customers must pay the principal, interest, and related charges of the system restoration bonds through system restoration charges.¹⁹ System restoration charges are nonbypassable charges that will be paid as a component of the monthly charge for electric service.²⁰ System restoration charges must be approved by the Commission under a financing order.²¹

The Commission may adopt a financing order only if it finds that the total amount of revenues to be collected under the financing order is less than the revenue requirement that would be recovered using conventional financing methods and that the financing order is in accordance with the standards of PURA §§ 36.401 and 39.301.²² The Commission must ensure that the net proceeds of system restoration bonds may be used only for the purpose of reducing the amount of recoverable system restoration costs.²³ In addition, the Commission must ensure that (1) securitization provides tangible and quantifiable benefits to ratepayers greater than would have been achieved absent the issuance of the system restoration bonds,²⁴ and (2) the structuring and pricing of the system restoration bonds result in the lowest system restoration bond charges

¹⁷ See PURA § 39.302(6) and 39.304.

¹⁸ See PURA § 36.401(a).

¹⁹ See PURA § 36.403(f).

²⁰ *Id.*

²¹ See PURA § 39.302(7).

²² See PURA §§ 36.402(a) through (c) and 36.403(d).

²³ See PURA § 36.401(a).

²⁴ See PURA § 36.401(b)(2).

consistent with market conditions and the terms of a financing order.²⁵ Finally, the amount securitized may not exceed the present value of the revenue requirement over the life of the proposed system restoration bonds associated with the amounts sought to be securitized, and the present value calculation must use a discount rate equal to the proposed interest rate on the system restoration bonds.²⁶ All of these statutory requirements are designed to ensure that securitization will provide real benefits to ratepayers.

The essential finding by the Commission that is needed to issue a financing order is that ratepayers will receive tangible and quantifiable benefits as a result of securitization. This finding can only be made upon a showing of economic benefits to ratepayers through an economic analysis. An economic analysis is necessary to recognize the time value of money in evaluating whether and the extent to which benefits accrue from securitization. Moreover, an economic analysis recognizes the concept that the timing of a payment can be as important as the magnitude of a payment in determining the value of the payment. Thus, an analysis showing an economic benefit is necessary to quantify a tangible benefit to ratepayers.

Economic benefits also depend upon a favorable financial market—one in which system restoration bonds may be sold at an interest rate lower than the carrying costs of the assets being securitized. The precise interest rate at which system restoration bonds can be sold in a future market, however, is not known today. Nevertheless, benefits can be calculated based upon certain known facts (e.g. the amount of assets to be securitized and the cost of the alternative to securitization) and assumptions (e.g. the interest rate of the system restoration bonds, the term of the system restoration bonds and the amount of other qualified costs). By analyzing the proposed securitization based upon those facts and assumptions, a determination can be made as to whether tangible and quantifiable benefits result. To ensure that benefits are realized, the securitization transaction must conform to the structure ordered by the Commission and an issuance advice letter must be presented to the Commission immediately before issuance of the system restoration bonds demonstrating that the actual structure and costs of the bonds will provide tangible and quantifiable benefits. The cost-benefit analysis contained in the issuance advice letter must reflect the actual structure of the system restoration bonds.

²⁵ See PURA § 39.301.

²⁶ *Id.*

AEP Texas's financial analysis shows that securitizing the amount requested by AEP Texas will produce an economic benefit to ratepayers in an amount of approximately \$52.4 million on a present value basis using the expected weighted-average interest rate of 3.48%, or approximately \$52.6 million considering the adjustment to the cap on qualified costs included in the settlement agreement.²⁷ A benefit of approximately \$19.7 million will result even if the bond market is less favorable than current market conditions and system restoration bonds have to be issued at the worst-case weighted-average interest rate of 6.00%, or approximately \$19.9 million considering the adjustment to the cap on qualified costs included in the settlement agreement.²⁸ The economic benefit to ratepayers will be larger if a more favorable market allows the system restoration bonds to be issued at a lower interest rate. In the issuance advice letter, AEP Texas will be required to update the benefit analyses to verify that the final system restoration bond structure and pricing satisfies the statutory financial tests.

To issue a financing order, PURA also requires that the Commission find that the total amount of revenues collected under the financing order will be less than would otherwise have been collected under conventional financing methods.²⁹ In this proceeding, AEP Texas's financial analysis of the amount sought to be securitized under worst-case market conditions, in which the bonds bear a 6.00% weighted-average interest rate, demonstrates that revenues will be reduced by approximately \$26.8 million on a nominal basis under this Financing Order compared to the amount that would be recovered under conventional financing methods, or approximately \$27.1 million considering the adjustment to the cap on qualified costs included in the settlement agreement.³⁰ Under the expected scenario in which the bonds are issued at a 3.48% weighted-average interest rate, securitization saves ratepayers approximately \$62.9 million in nominal revenue, or approximately \$63.2 million, considering the adjustment to the cap on qualified costs included in the settlement agreement.³¹ If system restoration bonds are issued in a more favorable market, this reduction in revenues will be larger.

²⁷ Hamlett Direct at 15.

²⁸ *Id.*

²⁹ See PURA § 39.303(a).

³⁰ Hamlett Direct at 12.

³¹ *Id.*

Before the system restoration bonds may be issued, AEP Texas must submit to the Commission an issuance advice letter in which it demonstrates, based upon the actual market conditions at the time of pricing, that the proposed structure and pricing of the system restoration bonds will provide real economic benefits to retail customers and comply with the statutory financial tests and terms of this Financing Order. As part of this submission, AEP Texas must also certify to the Commission that the structure and pricing of the system restoration bonds result in the lowest system restoration bond charges consistent with market conditions at the time of pricing and the terms of this Financing Order. The form of certification that must be submitted by AEP Texas is set out in appendix A to this Financing Order. The Commission, by order, may stop the issuance of the system restoration bonds authorized by this Financing Order if AEP Texas fails to make this demonstration or certification. Should AEP Texas issue more than one series of system restoration bonds, AEP Texas must demonstrate in the issuance advice letter for each series that the securitization will provide real economic benefits to retail customers and comply with the statutory financial tests and terms of this Financing Order.

PURA requires that system restoration charges be charged for the use or availability of electric services to recover all qualified costs.³² System restoration charges, like all transition charges, can be recovered over a period that does not exceed 15 years.³³ The Commission concludes that this prevents the collection of system restoration charges from retail customers for services rendered after the 15-year period but does not prohibit recovery of system restoration charges for service rendered during the 15-year period but not actually collected until after the 15-year period.

System restoration charges constitute transition charges as defined in PURA § 39.302 and used in chapter 39, subchapter G of PURA³⁴ and will be collected by an electric utility, its successors, an assignee, or other collection agents as provided for in this Financing Order.³⁵ System restoration charges must be functionalized and allocated to customers in the same manner as the corresponding facilities relating to the system restoration costs and related expenses are

³² PURA § 36.403(f).

³³ See PURA § 39.303(b).

³⁴ PURA § 36.403(f).

³⁵ See PURA § 39.302(7).

functionalized and allocated in a utility's current base rates (i.e., the same allocation as is set forth in existing Commission orders regarding AEP Texas's central division).³⁶ The Commission further determines that, to ensure that the allocation of system restoration charges are functionalized in such manner, the ADFIT benefits associated with the securitization transaction should be calculated and allocated in the manner described in this Financing Order.

The rights to impose, collect, and receive system restoration charges (including all other rights of an electric utility under the financing order) are only contract rights until such rights (which may relate to the entire amount authorized to be securitized or, if more than one series of system restoration bonds are issued due to market conditions, to a portion of the total amount authorized to be securitized) are first transferred to an assignee or pledged in connection with the issuance of system restoration bonds.³⁷ Upon the transfer or pledge of those rights, they become transition property and, as such, are afforded certain statutory protections to ensure that the charges are available for bond retirement.³⁸

This Financing Order contains terms, as it must, ensuring that the imposition and collection of system restoration charges authorized herein must be nonbypassable.³⁹ It also includes a mechanism requiring that system restoration charges be reviewed and adjusted at least annually, within 45 days of the anniversary date of the issuance of the system restoration bonds, to correct any overcollections or undercollections during the preceding 12 months and to ensure the expected recovery of amounts sufficient to timely provide all payments of debt service and other required amounts and charges in connection with the system restoration bonds.⁴⁰ In addition to the required annual reviews, interim reviews are mandatory semi-annually (or quarterly after the final scheduled payment date of the last tranche of the system restoration bonds) to ensure that the amount of the system restoration charges matches the funding requirements approved in this Financing Order. Optional interim true-up adjustments may also be made under the circumstances set forth in this Financing Order. These provisions will help to ensure that the amount of system

³⁶ PURA § 36.403(g).

³⁷ PURA § 39.304(a).

³⁸ See PURA § 39.304(b).

³⁹ See PURA §§ 36.404, 39.306.

⁴⁰ See PURA § 39.307.

restoration charges paid by retail customers does not exceed the amounts necessary to cover the costs of this securitization. To encourage utilities to undertake securitization financing, other benefits and assurances are provided.

The state of Texas has pledged, for the benefit and protection of financing parties and electric utilities, that it will not take or permit any action that would impair the value of transition property, or, except for the true-up expressly allowed by law, reduce, alter, or impair the system restoration charges to be imposed, collected and remitted to financing parties, until the principal, interest and premium, and any other charges incurred and contracts to be performed in connection with the related system restoration bonds have been paid and performed in full.⁴¹

Transition property (whether associated with a single bond series covering the entire amount authorized to be securitized or with one of multiple bond series covering only a portion of the total amount authorized to be securitized) constitutes a present property right for purposes of contracts concerning the sale or pledge of property, and the property will continue to exist for the duration of the pledge of the state of Texas as described in the preceding paragraph.⁴² In addition, the interests of an assignee or pledgee in transition property (as well as the revenues and collections arising from the property) are not subject to setoff, counterclaim, surcharge, or defense by the electric utility or any other person or in connection with the bankruptcy of the electric utility or any other entity.⁴³ Further, transactions involving the transfer and ownership of transition property and the receipt of system restoration charges are exempt from state and local income, sales, franchise, gross receipts, and other taxes or similar charges.⁴⁴ The creation, granting, perfection, and enforcement of liens and security interests in transition property are governed by PURA § 39.309 and not by the Texas Business and Commerce Code.⁴⁵

The Commission may, at the request of an electric utility, adopt a financing order providing for the retiring and refunding of system restoration bonds only upon making a finding that the future system restoration charges required to service the new system restoration bonds, including

⁴¹ See PURA § 39.310.

⁴² See PURA § 39.304(b).

⁴³ See PURA § 39.305.

⁴⁴ See PURA § 39.311.

⁴⁵ See PURA § 39.309(a).

transaction costs, will be less than the future system restoration charges required to service the bonds being retired or refunded.⁴⁶ AEP Texas has not requested and this Financing Order does not grant any authority to refinance the system restoration bonds authorized by this Financing Order. This Financing Order does not preclude AEP Texas from filing a request for a financing order to retire or refund the system restoration bonds approved in this Financing Order upon a showing that the statutory criteria in PURA § 39.303(g) are met.

To facilitate compliance and consistency with applicable statutory provisions, this Financing Order adopts the definitions in PURA §§ 36.403 and 39.302.

II. Description of Proposed Transaction

A description of the transaction proposed by AEP Texas is contained in its application and the evidence submitted in support of the application. A brief summary of the proposed transaction is provided in this section. A more detailed description is included in Section III. C, titled Structure of The Proposed Securitization and in the application and evidence submitted in support of the application.

To facilitate the proposed securitization, AEP Texas has proposed that (depending on whether more than one series of system restoration bonds are issued) one or more special purpose entities (each referred to as BondCo) be created to which AEP Texas will transfer the rights to impose, collect, and receive system restoration charges along with the other rights arising under this Financing Order, in each case allocable to the series of system restoration bonds the BondCo is issuing. Upon transfer to a BondCo (in connection with the issuance of the particular series of system restoration bonds), these rights will become transition property as provided by PURA § 39.304. If system restoration bonds are issued in more than one series, then the transition property transferred as a result of each issuance must be only those rights associated with that portion of the total amount authorized to be securitized by this Financing Order which is securitized by a particular bond issuance. The rights to impose, collect, and receive system restoration charges, along with the other rights arising under this Financing Order as they relate to any portion of the total amount authorized to be securitized that remains unsecuritized, must

⁴⁶ See PURA § 39.303(g).

remain with AEP Texas and must not become transition property until transferred to a BondCo in connection with a subsequent issuance of system restoration bonds.

AEP Texas will create a separate BondCo for the issuance of a particular series of the system restoration bonds; and the rights, obligations, structure and restrictions described in this Financing Order with respect to BondCo are applicable to each such purchaser of transition property to the extent of the transition property transferred and sold to it and the system restoration bonds issued by it. BondCo will issue system restoration bonds and will transfer the net proceeds from the sale of the system restoration bonds to AEP Texas in consideration for the transfer of the corresponding transition property. BondCo will be organized and managed in a manner designed to achieve the objective of maintaining BondCo as a bankruptcy-remote entity that would not be affected by the bankruptcy of AEP Texas or any other affiliates of AEP Texas or any of their respective successors. In addition, BondCo will have at least one independent manager whose approval will be required for certain major actions or organizational changes by BondCo.

The system restoration bonds will be issued under an indenture and administered by an indenture trustee.⁴⁹ The system restoration bonds will be secured by and payable solely out of the transition property created under this Financing Order and other collateral described in AEP Texas's application. That collateral will be pledged to the indenture trustee for the benefit of the holders of the system restoration bonds and to secure payment of certain qualified costs.

The servicer of the system restoration bonds will collect the system restoration charges and remit those amounts to the indenture trustee on behalf of BondCo. The servicer will be responsible for filing any required or allowed true-ups of the system restoration charges. If the servicer defaults on its obligations under the servicing agreement, the indenture trustee may, on behalf of the holders of system restoration bonds, appoint a successor servicer. AEP Texas will act as the initial servicer for the system restoration bonds.

Retail electric providers (REPs) will be required to meet certain financial standards to collect system restoration charges under this Financing Order, in accordance with the financial

⁴⁹ If more than one series of system restoration bonds is issued, each series will be issued under a separate indenture and be subject to its own set of basic agreements (e.g., transition property purchase and sale agreement, transition property servicing agreement, administration agreement). For purposes of this Financing Order, the description of the system restoration bonds applies to each series of system restoration bonds.

standards they must meet to collect transition charges under financing orders issued under chapter 39, subchapter G of PURA. If the REP qualifies to collect system restoration charges, the servicer will bill to and collect from the REP the system restoration charges attributable to the REP's customers. The REP in turn will bill to and collect from its retail customers the system restoration charges attributable to them. If any REP fails to qualify to collect system restoration charges or defaults in the remittance of those charges to the servicer of the system restoration bonds, another entity can assume responsibility for collection of the system restoration charges from the REP's retail customers.

System restoration charges will be calculated to ensure the collection of an amount sufficient to service the principal, interest, and related charges for the system restoration bonds and in a manner that allocates this amount to the various classes of retail customers in the same manner as the corresponding facilities and related expenses are allocated among customers in AEP Texas's current base rates. The system restoration charges will be calculated in accordance with the method described in schedule SRC, a pro forma copy of which is contained in appendix B. In addition to the annual true-up required by PURA § 39.307, interim true-ups must be performed semi-annually (or quarterly after the final scheduled payment date of the last tranche of the system restoration bonds) if necessary to ensure that the amount collected from system restoration charges is sufficient to service the system restoration bonds and may be performed at other times as provided in this Financing Order. A non-standard true-up will be allowed for other circumstances as provided in this Financing Order. The methodology for making true-ups and allocation adjustments and the circumstances under which each must be made are described in pro forma schedule SRC, attached to this Financing Order as appendix B. If system restoration bonds are issued in more than one series, then each series will be subject to a separate true-up under PURA and this Financing Order; provided, however, that more than one series may be true-up in a single proceeding.

The Commission determines that AEP Texas's proposed structure for the system restoration charges should be utilized. This structure provides for substantially levelized annual revenue requirements over the expected life of the system restoration bonds. This structure offers the benefit of not relying upon customer growth and will allow the resulting system restoration charges to remain level or decline over time, if billing determinants remain level or grow. Further,

AEP Texas's proposed system restoration charge tariff applies consistent allocation factors across rate classes, subject to modification in accordance with the true-up mechanisms adopted in this Financing Order.

All of the bonds issued in prior Texas securitizations have been issued with a fixed interest rate.⁵⁰ A fixed interest rate is necessary to assure that ratepayers benefit from the securitization. Although the benefits of fixed rates can be achieved through a combination of floating-rate bonds and interest-rate swaps, the Commission in prior securitizations in Texas concluded that the possible benefit of floating-rate bonds did not outweigh the cost of preparing for and executing interest-rate swaps and the potential risks swaps would impose on ratepayers. As a result, the financing orders in those proceedings prohibited the use of swaps and thus, effectively, the issuance of floating-rate bonds. The Commission reaches the same conclusion in this proceeding and will prohibit AEP Texas from issuing floating-rate bonds.

The Commission reaches a similar conclusion that issuance of bonds denominated in foreign currency should likewise be prohibited. Denominating bonds in foreign currency would create foreign currency risks for ratepayers. While these risks can be reduced through use of derivatives, the derivatives themselves create risks for ratepayers.

Interest-rate hedges can also be used to lock in interest rates or limit the variability of interest rates before issuance of bonds. However, the hedge is a bet on the direction of future market changes, which is neither necessary nor appropriate. Hedges also create additional costs and risks if, for any reason, the system restoration bonds are not issued or the amount issued is different from the principal hedged. As a result, this Financing Order prohibits AEP Texas from issuing system restoration bonds denominated in foreign currencies and from entering into interest-rate hedges.

AEP Texas requested approval of system restoration charges sufficient to recover the principal and interest on the system restoration bonds plus ongoing qualified costs as described in

⁵⁰ *E.g., Application of AEP Texas Central Company for a Financing Order*, Docket No. 32475, Financing Order at 14 and 15 (Jun. 21, 2006); *Application of Entergy Gulf States, Inc. for a Financing Order*, Docket No. 33586, Financing Order at 2 (Apr. 2, 2007); *Application of CenterPoint Houston Electric, LLC for a Financing Order*, Docket No. 34448, Financing Order at 2 (Sept. 18, 2007); *Application of CenterPoint for a Financing Order*, Docket No. 3700, Financing Order at 2 (Aug. 27, 2009); *Application of Entergy Texas, Inc. for a Financing Order*, Docket No. 37247, Financing Order at 2 (Sept. 11, 2009); *Application of AEP Texas Central Company for a Financing Order*, Docket No. 39931, Financing Order at 4 (Jan. 12, 2012).

Docket No. 49308

Financing Order

Page 17 of 86

this Financing Order and appendix C attached hereto. AEP Texas requested that the system restoration charges be recovered from REPs, and through them from retail customers, and that the amount of the system restoration charges be calculated based upon the allocation methodology and billing determinants specified in schedule SRC. AEP Texas also requested that certain standards related to the billing and collection of system restoration charges be applied to REPs, as specified in schedule SRC. To implement the system restoration charges and billing and collection requirements, AEP Texas requested approval of schedule SRC.

AEP Texas requested authority to securitize and to cause the issuance of system restoration bonds in an aggregate principal amount not to exceed the sum of (1) the securitizable balance at the date of issuance of the system restoration bonds plus (2) its actual up-front qualified costs of issuing, supporting, and servicing the system restoration bonds. AEP Texas provided an illustrative analysis of the costs and benefits of securitization using its estimate of the May 2019, securitizable balance. AEP Texas proposed that these amounts be updated in the issuance advice letter to reflect the actual issuance date of the system restoration bonds and other relevant current information as permitted by this Financing Order, and that AEP Texas be authorized to securitize the updated securitizable balance and up-front qualified costs as reflected in the issuance advice letter.

AEP Texas requested in the application that its up-front and ongoing costs of issuing and maintaining the system restoration bonds be recovered respectively through the system restoration bonds and system restoration charges approved in this Financing Order. AEP Texas estimated that its up-front costs would total approximately \$4.6 million, while ongoing costs of servicing the system restoration bonds would total approximately \$504,000 per year for each year of the term of the bonds. The estimates were based on assumptions regarding a number of variables that will directly affect the level of up-front and ongoing qualified costs including (1) the total securitizable balance will be \$224.9 million, (2) only one series of system restoration bonds will be issued, (3) the financing order proceeding will not be contested, (4) the financing order will not permit use of interest rate or foreign currency hedges, floating rate bonds, or bonds denominated in foreign currencies, and (5) AEP Texas acts as servicer.

The Commission's analysis of AEP Texas's request begins with the finding that the company's up-front qualified costs that are permitted to be securitized, as well as certain of the

Docket No. 49308

Financing Order

Page 18 of 86

ongoing costs that the company proposes to recover directly through system restoration charges, should be capped. This finding accords with AEP Texas's prior securitizations and other securitization proceedings in this state.

The Commission finds that AEP Texas should be permitted to securitize its up-front costs of issuance in accordance with the terms of this Financing Order. As set forth in ordering paragraph 17 of this Financing Order, up-front qualified costs should not exceed \$3,650,241 plus (i) the cost of original issue discount, credit enhancements and other arrangements to enhance marketability as discussed in ordering paragraphs 6 and 23, (ii) rating agency fees, (iii) United States Securities and Exchange Commission (SEC) registration fees, (iv) the cost of the Commission's financial advisor and its legal counsel, if any, and any additional costs incurred by AEP Texas to comply with the requests and recommendations of the Commission's financial advisor, and (v) any costs incurred by AEP Texas if this Financing Order is appealed. However, no individual cap will apply to any component of the capped up-front qualified costs included in the \$3,650,241 described above. In the issuance advice letter, AEP must report the actual qualified costs securitized.

AEP Texas is authorized to recover directly through the system restoration charges its actual ongoing costs of servicing the bonds and providing administrative services to BondCo, subject to a cap on servicing fees equal to 0.10% of the initial principal amount of system restoration bonds issued under this Financing Order and a cap on administrative fees of \$100,000 for each BondCo plus reimbursable third party costs, which will apply as long as AEP Texas continues to serve as the servicer or administrator, respectively. Ongoing qualified costs, other than the servicer and administrative fees charged by AEP Texas when it is the servicer and administrator, are not capped. They are, however, estimated in appendix C. The estimated ongoing qualified costs should be updated in the issuance advice letter to reflect more current information then available to AEP Texas. In accordance with the terms of this Financing Order and subject to the approval of the indenture trustee, the Commission will permit a successor servicer to AEP Texas to recover a higher servicer fee if AEP Texas ceases to service the transition property.

AEP Texas does not anticipate incurring costs of retiring or refunding debt or equity in connection with the use of the proceeds from the issuance of the system restoration bonds.⁵¹ However, if costs of retiring or refunding debt are incurred, the Commission notes that the cost of retiring or refunding AEP Texas's existing debt or equity using the proceeds from the system restoration bonds must remain uncapped. Commission experience with these expenses indicates that they vary widely and are not entirely within the company's control. AEP Texas should be authorized to record such costs as a regulatory asset included on its books and to accrue carrying costs on such regulatory asset using the average weighted interest rate on the system restoration bonds, until the costs are included in AEP Texas's next base-rate case, and that the costs, together with carrying costs, be considered for recovery in AEP Texas's next base-rate case, subject to a showing that such costs were prudently incurred and are reasonable and necessary.

III. Findings of Fact

The Commission makes the following findings of fact.

A. Identification and Procedure

1. Identification of Applicant and Background

1. AEP Texas Inc. (AEP Texas) is a transmission and distribution utility that owns and operates for compensation an extensive transmission and distribution network to provide electric service in the portion of this state that is included in the Electric Reliability Council of Texas (ERCOT) region. AEP Texas is a direct wholly-owned subsidiary of American Electric Power Company, Inc., which is a public utility holding company under the Public Utility Holding Company Act of 2005.
2. Effective December 31, 2016, AEP Texas Central Company and AEP Texas North Company merged into their direct parent company, AEP Utilities, Inc., and named the merged company AEP Texas. AEP Texas maintains north and central divisions with separate rates. This financing order affects only the AEP Texas central division and all references to ratepayers or retail customers in this order should be interpreted to mean ratepayers or retail customers located within the AEP Texas central division service area.

⁵¹ Direct Testimony of Noah K. Hollis at 17.

Docket No. 49308

Financing Order

Page 20 of 86

3. Hurricane Harvey struck the AEP Texas central division service area on August 25, 2017, causing extensive damage to its system and widespread electric outages.
4. On August 7, 2018, AEP Texas filed an application under PURA § 36.405 for determination of the amount of system restoration costs related to Hurricane Harvey and certain other weather-related events, eligible for securitization or other recovery. That application was assigned Docket No. 48577.
5. On February 28, 2019 the Commission issued the order approving the settlement in Docket No. 48577 and determining that AEP Texas's system restoration costs eligible for securitization or other recovery were \$369,230,601, of which \$261,534,554 was related to the distribution function. The order provides that AEP Texas is entitled to recover carrying costs on Hurricane Harvey-related system restoration costs according to the methodology approved in Docket No. 48577.

2. Procedural History

6. On March 8, 2019, AEP Texas filed an application for a financing order under PURA chapter 36, subchapter I and chapter 39, subchapter G to permit securitization of an amount equal to the sum of (1) the securitizable balance as of the date of issuance of the system restoration bonds, plus (2) up-front qualified costs. The application includes exhibits, schedules, attachments, and testimony.
7. In Order No. 2 issued March 27, 2019, the administrative law judge established an intervention deadline of April 15, 2019.
8. The following party requested and was granted intervention: the Alliance for Retail Markets (ARM). Commission Staff also participated as a party in the proceeding. In Order No. 7 issued May 22, 2019, the administrative law judge denied the motion to intervene of Mr. Tom Joseph.
9. On May 9, 2019, AEP Texas and Commission Staff filed the settlement agreement, resolving certain issues in the proceeding. ARM is not a signatory to the settlement agreement, but does not oppose it.
10. On May 9, 2019, AEP Texas and Commission Staff also filed a joint motion to admit evidence, including the proof of notice, the pre-filed direct testimony and exhibits of Noah

Docket No. 49308

Financing Order

Page 21 of 86

K. Hollis, Randall W. Hamlett, Kurt Mars, Katrina T. Niehaus and John O. Aaron, the securitization filing package schedules and attachments, and the testimony of Randall W. Hamlett and Commission Staff witnesses Darryl Tietjen and Nancy Palma in support of the settlement agreement. In Order No. 8 issued on May 22, 2019, the Commission granted the joint motion to admit evidence.

11. The Commission considered this Financing Order at its June 13, 2019 open meeting.

3. Notice of Application

12. Notice of AEP Texas's application was provided through publication once a week for two consecutive weeks in newspapers having general circulation in AEP Texas's central division service area; such notice by publication was completed on April 11, 2019. In addition, upon the filing of its application on March 8, 2019, AEP Texas provided notice, by furnishing a copy of its application to each party to Docket No. 48577.
13. On March 26, 2019, AEP Texas also provided individual notice (a) to the governing bodies of all Texas incorporated municipalities in the AEP Texas central division service area that have retained original jurisdiction over AEP Texas, (b) to all municipally owned utilities and electric cooperatives with multiply-certificated service areas with the AEP Texas central division, and (c) to each REP listed on the Commission website at the time AEP Texas filed its application for a financing order.
14. Verification of the mailing of individual notices to the municipalities, to the municipally owned utilities and electric cooperatives with multiply certificated service areas within the AEP Texas central division, and to the REPs, and of the furnishing of a copy of AEP Texas's filing package on each of the parties to Docket No. 48577 was made by affidavit filed on May 1, 2019. Proof of publication of notice was submitted in the form of publishers' affidavits on May 1, 2019.

B. Qualified Costs and Amount to be Securitized

1. Identification

15. Qualified costs are defined in PURA § 36.403(d) to include 100% of an electric utility's system restoration costs, including carrying costs at the electric utility's weighted average cost of capital as last approved in the utility's general rate case, net of any insurance proceeds, government grants, or other sources of funding that compensate the utility for

system restoration costs received by the utility at the time it files an application for a financing order, together with the costs of issuing, supporting, and servicing system restoration bonds and any costs of retiring and refunding the electric utility's existing debt and equity securities in connection with the issuance of system restoration bonds.⁵² Qualified costs also include the costs to the Commission of acquiring professional services for the purpose of evaluating proposed securitization transactions and costs associated with ancillary agreements such as any bond insurance policy, letter of credit, reserve account, surety bond, swap arrangement, hedging arrangement, liquidity or credit support arrangement or other financial arrangement entered into in connection with the issuance or payment of the system restoration bonds. In this case, the qualified costs to be securitized will be offset utilizing certain prescribed excess unprotected ADFIT as determined in Docket No. 48577.

16. The actual costs of issuing and supporting the system restoration bonds will not be known until the system restoration bonds are issued, and certain ongoing costs relating to the system restoration bonds may not be known until such costs are incurred. However, to satisfy the statutory obligation to ensure tangible and quantifiable benefits to ratepayers, it is appropriate to limit the amount of certain up-front qualified costs that may be included in the principal amount of the system restoration bonds so that the sum of those up-front qualified costs does not exceed \$3,650,241 plus (i) the cost of original issue discount, credit enhancements and other arrangements to enhance marketability as discussed in ordering paragraphs 6 and 23, (ii) rating agency fees, (iii) SEC registration fees, (iv) the cost of the Commission's financial advisor and its legal counsel, if any, and any additional costs incurred by AEP Texas to comply with the requests and recommendations of the Commission's financial advisor, and (v) any costs incurred by AEP Texas if this Financing Order is appealed. However, no component of the capped up-front qualified costs will be subject to an individual cap. The amount of the up-front qualified costs must be shown in the issuance advice letter to ensure compliance with all statutory requirements.
17. AEP Texas intends to use the proceeds from the sale of the transition property to reduce recoverable system restoration costs, and thereafter to repay outstanding short-term debt at

⁵² PURA § 36.403(d).

AEP Texas and to fund capital expenditures to support utility operations and services; accordingly, it does not anticipate incurring costs of retiring or refunding debt or equity in connection with the proceeds from the issuance of the system restoration bonds.⁵³ However, if costs of retiring or refunding debt are incurred, the Commission authorizes AEP Texas to record such costs as a regulatory asset included on its books. AEP Texas is allowed to accrue carrying costs on such regulatory asset using the weighted-average interest rate on the system restoration bonds. The accrual of carrying costs will continue until the costs are included in AEP Texas's next base-rate case, and the costs, together with carrying costs, will be considered for recovery in AEP Texas's next base-rate case, subject to a showing that such costs were prudently incurred and are reasonable and necessary.

2. Accumulated Deferred Federal Income Tax Benefits

18. ADFIT associated with system restoration costs occurs because of the timing difference between the regulatory and tax treatment of the system restoration costs.
19. AEP Texas proposed an ADFIT-credit rider that provides to ratepayers the benefit of the ADFIT associated with system restoration costs over the same time period AEP Texas will collect the system restoration charges from ratepayers.
20. AEP Texas's estimate of the ADFIT benefit associated with system restoration costs appropriately takes into account the effect of the AEP Texas's net operating loss.
21. The ADFIT benefits associated with system restoration costs can only be estimated at this point because they are dependent in part on future taxable income, a future tax refund, and the specific timing of the issuance of system restoration bonds, all of which remain uncertain at this time. The available amount of ADFIT benefit when AEP Texas begins to implement the ADFIT credit rider is subject to update at the time system restoration bonds are issued, and to the extent necessary, in connection with true-up filings over the course of the period that the ADFIT credit rider and system restoration charges remain in force.

3. Balance to be Securitized

22. It is appropriate that AEP Texas be authorized to cause system restoration bonds to be issued in an aggregate principal amount equal to the securitizable balance at the time of

⁵³ Hollis Direct at 17.

issuance plus up-front qualified costs as described in ordering paragraph 17. The securitizable balance to be securitized must be equal to the balance of distribution-related system restoration costs as determined in Docket No. 48577 plus carrying costs, using the methodology for calculating carrying costs approved in Docket No. 48577, through the date the system restoration bonds are issued net of all insurance proceeds, government grants, and other sources of funding received by AEP Texas at the time that the financing application was filed that compensate AEP Texas for the distribution-related system restoration costs, and a further offset utilizing certain prescribed excess unprotected ADFIT, all as determined in Docket No. 48577. In the issuance advice letter, AEP Texas must update the amounts to reflect the securitizable balance on the date of issuance and the amount of up-front qualified costs securitized, subject to any caps on certain up-front costs provided in ordering paragraph 17 of this Financing Order.

23. It is appropriate for AEP Texas to recover the annual ongoing servicing fees and the annual fixed operating costs directly through system restoration charges. It is also appropriate to impose additional limits to ensure that the servicing fees incurred when AEP Texas serves as servicer do not exceed 0.10% of the initial principal balance of the system restoration bonds and that the administrative fees incurred when AEP Texas is the administrator do not exceed \$100,000 per year for each BondCo plus reimbursable third party costs as shown in appendix C. Consistent with AEP Texas's prior securitizations, the annual servicing fee payable to a servicer not affiliated with AEP Texas will not exceed 0.6% of the initial principal balance of the system restoration bonds unless such higher rate is approved by the Commission. Ongoing costs other than the servicer and administrative fees charged by AEP Texas when it serves as servicer and administrator are not capped, but are estimated in appendix C to this Financing Order. The servicing and administrative fees collected by AEP Texas, or any affiliate of AEP Texas, acting as servicer or administrator under the servicing agreement or administration agreement must be included as a revenue credit and reduce revenue requirements in each subsequent rate case. The expenses incurred by AEP Texas or such affiliate to perform obligations under the servicing agreement should be included in each AEP Texas base-rate case.

4. Issuance Advice Letter

24. Because the actual structure and pricing of the system restoration bonds will not be known at the time this Financing Order is issued, following determination of the final terms of the system restoration bonds and before issuance of the system restoration bonds, AEP Texas will file with the Commission for each series of system restoration bonds issued, and no later than the end of the first business day after the pricing date for that series of system restoration bonds, an issuance advice letter. The issuance advice letter will include AEP Texas's best estimate of total up-front qualified costs for such issuance. The estimated total up-front qualified costs in the issuance advice letter may be included in the principal amount securitized, subject to the cap on up-front qualified costs as described in ordering paragraph 17 of this Financing Order. Within 60 days of issuance of the system restoration bonds, AEP Texas must submit to the Commission a final accounting of the total up-front qualified costs. The issuance advice letter will report the actual dollar amount of the initial system restoration charges and other information specific to the system restoration bonds to be issued. AEP Texas's issuance advice letter must update the benefits analysis to verify that the final amount securitized satisfies the statutory financial tests. All amounts that require computation will be computed using the mathematical formulas contained in the form of the issuance advice letter in appendix A to this Financing Order and schedule SRC. The initial system restoration charges and the final terms of the system restoration bonds set forth in the issuance advice letter must become effective on the date of issuance of the system restoration bonds unless before noon on the fourth business day after pricing the Commission issues an order finding that the proposed issuance does not comply with the requirements of PURA and this Financing Order.
25. If the actual up-front qualified costs are less than the up-front qualified costs included in the principal amount securitized, the periodic billing requirement, defined below, for the first annual true-up adjustment must be reduced by the amount of such unused funds (together with interest, if any, earned on the investment of such funds). If the actual upfront qualified costs are more than the up-front qualified costs included in the principal amount securitized, AEP Texas may request recovery of the remaining up-front qualified costs through a surcharge to AEP Texas's rates for distribution service, provided, however, AEP Texas may not request recovery of amounts that would cause the aggregate recoverable

amounts for capped costs to exceed the cap on up-front qualified costs described in ordering paragraph 17 of this Financing Order.

26. AEP Texas will submit a draft issuance advice letter to the Commission Staff for review not later than two weeks before the expected date of commencement of marketing each series of system restoration bonds. Within one week after receipt of the draft issuance advice letter, Commission Staff will provide AEP Texas comments and recommendations regarding the adequacy of the information provided.
 27. The issuance advice letter for a series of system restoration bonds must be submitted to the Commission not later than the end of the first business day after the pricing of such series of system restoration bonds. Commission Staff may request such revisions of the issuance advice letter as may be necessary to assure the accuracy of the calculations and that the requirements of PURA and of this Financing Order have been met. The initial system restoration charges and the final terms of the system restoration bonds set forth in the issuance advice letter must become effective on the date of issuance of the system restoration bonds (which must not occur before the fifth business day after pricing) unless before noon on the fourth business day after pricing the Commission issues an order finding that the proposed issuance does not comply with the requirements of PURA and the Financing Order.
 28. The completion and filing of an issuance advice letter in the form of the issuance advice letter attached as appendix A, including the certification from AEP Texas discussed in finding of fact numbers 27 and 97, is necessary to ensure that any securitization actually undertaken by AEP Texas complies with the terms of this Financing Order.
 29. The certification statement contained in AEP Texas's certification letter must be worded precisely as the statement in the form of the issuance advice letter approved by the Commission. Other aspects of the certification letter may be modified to describe the particulars of the system restoration bonds and the actions that were taken during the transaction.
- 5. Tangible and Quantifiable Benefit**
30. The statutory requirement in PURA §§ 36.401 and 39.301 that directs the Commission to ensure that securitization provides tangible and quantifiable benefits to ratepayers greater

than would be achieved absent the issuance of system restoration bonds can only be determined using an economic analysis to account for the time value of money. An analysis that compares in the aggregate, over the expected life of the system restoration bonds, the present value of the revenue requirement associated with recovery of the securitizable balance through rates reflective of conventional utility financing, with the present value of the revenue required under securitization, is an appropriate economic analysis to demonstrate whether securitization provides economic benefits to ratepayers.

31. The financial analysis presented by AEP Texas indicates that securitization of the securitizable balance and other qualified costs as requested by AEP Texas would result in approximately \$19.7 million of tangible and quantifiable economic benefits to ratepayers on a present-value basis if the system restoration bonds are issued at an average weighted average interest rate of 6.00% allowed by this Financing Order and with a 10-year expected life, or approximately \$19.9 million, considering the adjustment to the cap on qualified costs included in the settlement agreement. Using the projected weighted average interest rate of 3.48% and a 10-year expected life, the benefits of securitization would be approximately \$52.4 million on a present value basis, or approximately \$52.6 million considering the adjustment to the cap on qualified costs included in the settlement agreement. These estimates use AEP Texas's securitizable balance as of May 2019 (\$224.9 million), as approved in Docket No. 48577, and assume that actual up-front and ongoing qualified costs will be as shown on appendix C to this Financing Order. The benefits for retail customers set forth in AEP Texas's evidence are fully indicative of the benefits ratepayers will realize from the securitization approved in this Financing Order; however, the actual benefit to ratepayers will depend upon market conditions on the date of issuance of the system restoration bonds, the actual scheduled maturity of the system restoration bonds, and the amount actually securitized. AEP Texas will be required to provide an updated tangible and quantifiable benefits analysis in its issuance advice letter to verify that this statutory test is met.

6. Present Value Cap

32. The amount securitized may not exceed the present value of the revenue requirement over the life of the proposed system restoration bonds associated with conventional (i.e., non-securitized) recovery of the authorized amounts where the present value analysis uses

a discount rate equal to the proposed interest rate on the system restoration bonds.⁵⁴ The analysis presented by AEP Texas demonstrates that the proposed securitization meets this requirement whether the system restoration bonds are assumed to bear interest at a weighted average interest rate of 6.00%, at the projected weighted average interest rate of 3.48%, or at other interest rates less than 6.00%. Using a 3.48% weighted average interest rate, the present value of the revenue requirement savings would be approximately \$52.4 million, or approximately \$52.6 million considering the adjustment to the cap on qualified costs included in the settlement agreement. At the higher interest rate of 6.00%, the present value of the revenue requirement savings would be approximately \$19.7 million, or approximately \$19.9 million considering the adjustment to the cap on qualified costs included in the settlement agreement. These estimates use AEP Texas's securitizable balance as of May 2019 as approved in Docket No. 48577, an expected life of 10 years, and assume that actual up-front and ongoing qualified costs will be as estimated on appendix C to this Financing Order. The benefits for ratepayers set forth in AEP Texas's evidence are fully indicative of the benefits ratepayers will realize from the securitization approved in this Financing Order; however, AEP Texas will be required to provide an updated present value analysis in its issuance advice letter to verify that this statutory test is met.

7. Total Amount of Revenue to be Recovered

33. The Commission is required to find that the total amount of revenues to be collected under this Financing Order will be less than the revenue requirement that would be recovered over the life of the amounts that are securitized under this Financing Order, using conventional financing methods.⁵⁵ AEP Texas's analysis assumed that under conventional financing methods, the costs would be recovered over the life of the system restoration bonds (for purposes of its analysis, 10 years) with carrying costs equal to AEP Texas's weighted-average cost of capital of 7.4992%. The resulting total conventional revenues would be \$343.6 million. If 10-year system restoration bonds are issued at a 6.00% weighted average interest rate, AEP Texas's financial analysis indicates that the total

⁵⁴ See PURA § 39.301.

⁵⁵ See PURA § 39.303(a).

amount of revenues to be collected under this Financing Order is expected to be approximately \$26.8 million less than the revenue requirement that would be recovered using conventional utility financing methods, or approximately \$27.1 million considering the adjustment to the cap on qualified costs included in the settlement agreement. Using the projected weighted average interest rate of 3.48%, the benefits of securitization would be approximately \$62.9 million on a nominal basis, or approximately \$63.2 million, considering the adjustment to the cap on qualified costs included in the settlement agreement. These estimates use AEP Texas's securitizable balance as of May 2019, as approved in Docket No. 48577, an expected life of 10 years, and assume that actual up-front and ongoing qualified costs will be as estimated on appendix C to this Financing Order. The benefits for retail customers set forth in AEP Texas's evidence are fully indicative of the benefits ratepayers will realize from the securitization approved in this Financing Order; however, AEP Texas will be required to provide an updated total revenue analysis in its issuance advice letter to verify that this statutory test is met.

C. Structure of the Proposed Securitization

1. BondCo

34. For purposes of this securitization, AEP Texas will create one or more BondCos, a special purpose transition funding entity (each of which referred to as BondCo), each of which will be a Delaware limited liability company with AEP Texas as its sole member. If more than one series of system restoration bonds are issued, AEP Texas will create a separate BondCo for the issuance of a particular series of system restoration bonds and the rights, structure and restrictions described in this Financing Order with respect to BondCo will be applicable to each such purchaser of transition property to the extent of the transition property sold to it and the system restoration bonds issued by it. BondCo will be formed for the limited purpose of acquiring transition property, issuing system restoration bonds in one or more tranches, and performing other activities relating thereto or otherwise authorized by this Financing Order. BondCo will not be permitted to engage in any other activities and will have no assets other than transition property and related assets to support its obligations under the system restoration bonds. Obligations relating to the system restoration bonds will be BondCo's only significant liabilities. These restrictions on the activities of BondCo and restrictions on the ability of AEP Texas to take action on

BondCo's behalf are imposed to achieve the objective that BondCo will be bankruptcy remote and not affected by a bankruptcy of AEP Texas. BondCo will be managed by a board of managers with rights and duties similar to those of a board of directors of a corporation. As long as the system restoration bonds remain outstanding, BondCo will have at least one independent manager with no organizational affiliation with AEP Texas other than acting as independent manager for any other bankruptcy-remote subsidiary of AEP Texas or its affiliates, including AEP Texas Central Transition Funding II LLC, the issuer of the transition bonds approved in Docket No. 32475,⁵⁶ and AEP Texas Central Company Transition Funding III LLC, the issuer of transition bonds approved in Docket No. 39931.⁵⁷ BondCo will not be permitted to amend the provisions of the organizational documents that relate to bankruptcy-remoteness of BondCo without the consent of the independent manager. Similarly, BondCo will not be permitted to institute bankruptcy or insolvency proceedings or to consent to the institution of bankruptcy or insolvency proceedings against it, or to dissolve, liquidate, consolidate, convert, or merge without the consent of the independent manager. Other restrictions to facilitate bankruptcy-remoteness may also be included in the organizational documents of BondCo as required by the rating agencies.

35. The initial capital of BondCo is expected to be not less than 0.5% of the original principal amount of the system restoration bonds issued by BondCo. Adequate funding of BondCo at this level is intended to protect the bankruptcy remoteness of BondCo. A sufficient level of capital is necessary to minimize this risk and, therefore, assist in achieving the lowest system restoration charges possible.
36. BondCo will issue one series of system restoration bonds consisting of one or more tranches. The aggregate amount of all tranches of all series of system restoration bonds issued under this Financing Order must not exceed the principal amount approved by this Financing Order. BondCo will pledge to the indenture trustee, as collateral for payment of the system restoration bonds, the transition property, including BondCo's right to receive

⁵⁶ *Application of AEP Texas Central Company for a Financing Order*, Docket No. 32475, Financing Order (Jun. 21, 2006).

⁵⁷ *Application of AEP Texas Central Company for a Financing Order*, Docket No. 39931, Financing Order (Jan. 12, 2012).

the system restoration charges as and when collected, and certain other collateral described in AEP Texas's application.

37. Concurrent with the issuance of any of the system restoration bonds, AEP Texas will transfer to BondCo all of AEP Texas's rights under this Financing Order related to the amount of system restoration bonds BondCo is issuing, including rights to impose, collect, and receive system restoration charges approved in this Financing Order. This transfer will be structured so that it will qualify as a true sale within the meaning of PURA § 39.308 and that such rights will become transition property concurrently with the sale to BondCo as provided in PURA § 39.304. By virtue of the transfer, BondCo will acquire all of the right, title, and interest of AEP Texas in the transition property arising under this Financing Order that is related to the amount of system restoration bonds BondCo is issuing.
38. The use and proposed structure of BondCo and the limitations related to its organization and management are necessary to minimize risks related to the proposed securitization transactions and to minimize the system restoration charges. Therefore, the use and proposed structure of BondCo should be approved.

2. Credit Enhancement and Arrangements to Enhance Marketability

39. AEP Texas requested approval to use additional forms of credit enhancement (including letters of credit, reserve accounts, surety bonds, or guarantees) and other mechanisms designed to promote the credit quality and marketability of the system restoration bonds if the benefits of such arrangements exceed their cost. AEP Texas also asked that the costs of any credit enhancements as well as the costs of arrangements to enhance marketability be included in the amount of qualified costs to be securitized. AEP Texas should be permitted to recover the ongoing costs of credit enhancements and arrangements to enhance marketability, provided that the Commission's designated representative and AEP Texas agree in advance that such enhancements and arrangements provide benefits greater than their tangible and intangible costs. If the use of original issue discount, credit enhancements, or other arrangements is proposed by AEP Texas, AEP Texas must provide the Commission's designated representative copies of all cost-benefit analyses performed by or for AEP Texas that support the request to use such arrangements. This finding does not apply to the collection account or its subaccounts approved in this Financing Order.

40. AEP Texas's proposed use of credit enhancements and arrangements to enhance marketability is reasonable and should be approved, provided that AEP Texas certifies that the enhancements or arrangements provide benefits greater than their cost and that such certifications are agreed to by the Commission's designated representative.
41. In prior financing orders,⁵⁸ the Commission determined that the costs and risks of swap transactions outweighed the expected benefits and prohibited the use of interest rate-swaps. AEP Texas has not sought authority to use swap transactions in connection with its proposed securitization.
42. Also in prior financing orders, the Commission determined that the use of floating-rate notes, notes denominated in foreign currencies, interest-rate hedges, and interest-rate swaps would not be expected to result in the lowest system restoration bond charges, and would expose ratepayers to higher risks and greater uncertainty about future costs. Accordingly, AEP Texas has not asked for permission, and the Commission has determined that AEP Texas should not be permitted to use floating-rate notes, notes denominated in foreign currencies, hedges, or interest-rate swaps in this transaction.

3. Transition Property

43. Under PURA § 39.304(a), the rights and interest of an electric utility or successor under a financing order, including the right to impose, collect, and receive transition charges (which term includes the system restoration charges authorized in the financing order), are only contract rights until they are first transferred to an assignee or pledged in connection with the issuance of system restoration bonds, at which time they will become transition property.
44. The rights to impose, collect, and receive the system restoration charges approved in this Financing Order along with the other rights arising under this Financing Order will become transition property upon the transfer of such rights by AEP Texas to BondCo under PURA

⁵⁸ E.g., Docket No. 32475, Financing Order at 14–15; *Application of Entergy Gulf States, Inc. for a Financing Order*, Docket No. 33586, Financing Order at 2 (Apr. 2, 2007); *Application of CenterPoint Houston Electric, LLC for a Financing Order*, Docket No. 34448, Financing Order at 2 (Sept. 18, 2007); *Application of CenterPoint for a Financing Order*, Docket No. 37200, Financing Order at 2 (Aug. 27, 2009); *Application of Entergy Texas, Inc. for a Financing Order*, Docket No. 37247, Financing Order at 2 (Sept. 11, 2009); *Application of AEP Texas Central Company for a Financing Order*, Docket No. 39931, Financing Order at 4 (Jan. 12, 2012).

§ 39.304. If system restoration bonds are issued in more than one series, then the transition property transferred as a result of each issuance must be only those rights associated with that portion of the total amount authorized to be securitized by this Financing Order which is securitized by such issuance. The rights to impose, collect, and receive system restoration charges along with the other rights arising under this Financing Order as they relate to any portion of the total amount authorized to be securitized that remains unsecuritized must remain with AEP Texas and must not become transition property unless and until transferred to a BondCo in connection with a subsequent issuance of system restoration bonds.

45. Transition property and all other collateral will be held and administered by the indenture trustee under the indenture, as described in AEP Texas's application. This proposal will help ensure the lowest system restoration charges and should be approved.
46. Under PURA § 39.304(b), transition property constitutes a present property right for purposes of contracts concerning the sale or pledge of property, even though the imposition and collection of system restoration charges depends on further acts of the utility or others that have not yet occurred.

4. Servicer and the Servicing Agreement

47. AEP Texas will execute a servicing agreement with BondCo. The servicing agreement may be amended, renewed or replaced by another servicing agreement. The entity responsible for carrying out the servicing obligations under any servicing agreement is the servicer. AEP Texas will be the initial servicer but may be succeeded as servicer by another entity under certain circumstances detailed in the servicing agreement and as authorized by the Commission. Under the servicing agreement, the servicer is required, among other things, to impose and collect the applicable system restoration charges for the benefit and account of BondCo, to make the periodic true-up adjustments of system restoration charges required or allowed by this Financing Order, and to account for and remit the applicable system restoration charges to or for the account of BondCo in accordance with the remittance procedures contained in the servicing agreement without any charge, deduction or surcharge of any kind (other than the servicing fee specified in the servicing agreement). Under the terms of the servicing agreement, if any servicer fails to perform its servicing

obligations in any material respect, the indenture trustee acting under the indenture to be entered into in connection with the issuance of the system restoration bonds, or the indenture trustee's designee, may, or, upon the instruction of the requisite percentage of holders of the outstanding amount of system restoration bonds, must, appoint an alternate party to replace the defaulting servicer, in which case the replacement servicer will perform the obligations of the servicer under the servicing agreement. The obligations of the servicer under the servicing agreement and the circumstances under which an alternate servicer may be appointed are more fully described in the servicing agreement. The rights of BondCo under the servicing agreement will be included in the collateral pledged to the indenture trustee under the indenture for the benefit of holders of the system restoration bonds. AEP Texas currently serves as servicer of the transition charges related to the transition bonds issued by AEP Texas Central Transition Funding II LLC in October of 2006 under the financing order issued in Docket No. 32475, and the transition bonds issued by AEP Texas Central Transition Funding III LLC in March 2012 under the financing order issued in Docket No. 39931. Consequently, AEP Texas, as initial servicer of system restoration charges associated with system restoration bonds issued under this Financing Order will, and any successor servicer may, simultaneously be serving as servicer of separate transition charges associated with transition bonds for more than one issuer.

48. The servicing agreement negotiated as part of this securitization must contain a recital clause that the Commission, or its attorney, will enforce the servicing agreement for the benefit of Texas ratepayers to the extent permitted by law.
49. The servicing agreement negotiated as part of this securitization must include a provision that AEP Texas must indemnify the Commission (for the benefit of ratepayers) in connection with any increase in servicing fees that become payable as a result of a default resulting from AEP Texas's willful misconduct, bad faith or negligence in performance of its duties or observance of its covenants under the servicing agreement. The indemnity will be enforced by the Commission but will not be enforceable by any REP or customer.
50. The obligations to continue to provide service and to collect and account for system restoration charges will be binding upon AEP Texas and any other entity that provides transmission and distribution services or direct wire services to a person that was a retail

customer located within AEP Texas's central division service area as it existed on the date of this Financing Order, or that became a retail customer for electric services within such area after the date of this Financing Order, and is still located within such area, except as provided in finding of fact numbers 73 and 74. Further, and to the extent REPs are responsible for imposing and billing system restoration charges on behalf of BondCo, billing and credit standards approved in this Financing Order will be binding on all REPs that bill and collect system restoration charges from such retail customers, together with their successors and assigns. The Commission will enforce the obligations imposed by this Financing Order, its applicable substantive rules, and statutory provisions.

51. To the extent that any interest in the transition property created by this Financing Order is assigned, sold or transferred to an assignee,⁵⁹ AEP Texas will enter into a contract with that assignee that will require AEP Texas to continue to operate its transmission and distribution system to provide electric services to AEP Texas's customers. This provision does not prohibit AEP Texas from selling, assigning or otherwise divesting its transmission and distribution system or any part thereof so long as the entity acquiring such facilities agrees to continue operating the facilities to provide electric services to AEP Texas's customers.
52. The provisions described in finding of fact numbers 47 through 51 are reasonable, will reduce risk associated with the proposed securitization and will result in lower system restoration bond charges and greater benefits to ratepayers and should be approved.

5. Retail Electric Providers

53. The servicer will bill the system restoration charges to each retail customer's REP and the REP will collect the system restoration charges from its retail customers.
54. Schedule SRC sets forth minimum billing and collection standards to apply to REPs that collect system restoration charges approved by this Financing Order from retail customers. The Commission finds that the REP standards set forth in schedule SRC are appropriate and should be adopted.

⁵⁹ The term assignee means any individual, corporation, or other legally recognized entity to which an interest in transition property is transferred, other than as security, including any assignee of that party. See PURA § 39.302(1).

55. The REP standards set forth in schedule SRC relate only to the billing and collection of system restoration charges authorized under this Financing Order, and do not apply to collection of any other nonbypassable charges or other charges. The standards apply to all REPs other than REPs that have contracted with AEP Texas to have AEP Texas bill and collect system restoration charges from the REP's retail customers. REPs may contract with parties other than AEP Texas to bill and collect system restoration charges from retail customers, but such parties must remain subject to these standards. Upon adoption of any amendment to 16 TAC § 25.108, the Commission Staff will open a proceeding to investigate the need to modify the standards in schedule SRC to conform to that rule, provided that such modifications may not be implemented absent prior written confirmation (or deemed inapplicability of such confirmation requirement) from each of the rating agencies that have rated the system restoration bonds that such modifications will not cause a suspension, withdrawal, or downgrade of the ratings on the system restoration bonds.

The REP standards are as follows:

a. Rating, Deposit, and Related Requirements.

Each REP must (1) have a long-term, unsecured credit rating of not less than BBB- and Baa3 (or the equivalent) from Standard & Poor's and Moody's Investors Service, respectively, or (2) provide (a) a deposit of two months' maximum expected system restoration charge collections in the form of cash, (b) an affiliate guarantee, surety bond, or letter of credit providing for payment of such amount of system restoration charge collections in the event that the REP defaults in its payment obligations, or (c) a combination of any of the foregoing. A REP that does not have or maintain the requisite long-term, unsecured credit rating may select which alternate form of deposit, credit support, or combination thereof it will utilize, in its sole discretion. The indenture trustee must be a beneficiary of any affiliate guarantee, surety bond or letter of credit. The provider of any affiliate guarantee, surety bond, or letter of credit must have and maintain a long-term, unsecured credit rating of not less than BBB- and Baa3 (or the equivalent) from Standard & Poor's and Moody's Investors Service, respectively.

b. Loss of Rating.

If the long-term, unsecured credit rating from either Standard & Poor's or Moody's Investors Service of a REP that did not previously provide the alternate form of deposit, credit support, or combination thereof or of any provider of an affiliate guarantee, surety bond, or letter of credit is suspended, withdrawn, or downgraded below BBB- or Baa3 (or the equivalent), the REP must provide the alternate form of deposit, credit support, or combination thereof, or new forms thereof, in each case from providers with the requisite ratings, within 10 business days following such suspension, withdrawal, or downgrade. A REP failing to make such provision must comply with the provisions set forth in paragraph (e).

c. Computation of Deposit.

The computation of the size of a deposit required under paragraph (a) must be agreed upon by the servicer and the REP, and reviewed no more frequently than quarterly to ensure that the deposit accurately reflects two months' maximum expected system restoration charge collections. Within 10 business days following such review, (1) the REP must remit to the indenture trustee the amount of any shortfall in such required deposit or (2) the servicer must instruct the indenture trustee to remit to the REP any amount in excess of such required deposit. A REP failing to so remit any such shortfall must comply with the provisions set forth in paragraph (e). REP cash deposits must be held by the indenture trustee, maintained in a segregated account, and invested in short-term high quality investments, as permitted by the rating agencies rating the system restoration bonds. Investment earnings on REP cash deposits must be considered part of such cash deposits so long as they remain on deposit with the indenture trustee. At the instruction of the servicer, cash deposits will be remitted with investment earnings to the REP at the end of the term of the system restoration bonds unless otherwise utilized for the payment of the REP's obligations for system restoration charges. Once the deposit is no longer required, the servicer must promptly (but not later than 30 calendar days) instruct the indenture trustee to remit the amounts in the segregated accounts to the REP.

d. Payment of System Restoration Charges.

Payments of system restoration charges are due 35 calendar days following each billing by the servicer to the REP, without regard to whether or when the REP receives

payment from its retail customers. The servicer must accept payment by electronic funds transfer, wire transfer, check, or any combination thereof. Payment will be considered received the date the electronic funds transfer or wire transfer is received by the servicer, or the date the check clears. A 5% penalty is to be charged on amounts received after 35 calendar days; however, a ten calendar-day grace period will be allowed before the REP is considered to be in default. A REP in default must comply with the provisions set forth in paragraph (e). The 5% penalty will be a one-time assessment measured against the current amount overdue from the REP to the servicer. The current amount consists of the total unpaid system restoration charges existing on the 36th calendar day after billing by the servicer. Any and all such penalty payments will be made to the indenture trustee to be applied against system restoration charge obligations. A REP must not be obligated to pay the overdue system restoration charges of another REP. If a REP agrees to assume the responsibility for the payment of overdue system restoration charges as a condition of receiving the customers of another REP that has decided to terminate service to those customers for any reason, the new REP must not be assessed the 5% penalty upon such system restoration charges; however, the prior REP must not be relieved of the previously-assessed penalties.

e. Remedies Upon Default.

After the ten calendar-day grace period (the 45th calendar day after the billing date) referred to in paragraph (d), the servicer must have the option to seek recourse against any cash deposit, affiliate guarantee, surety bond, letter of credit, or combination thereof provided by the REP, and avail itself of such legal remedies as may be appropriate to collect any remaining unpaid system restoration charges and associated penalties due the servicer after the application of the REP's deposit or alternate form of credit support. In addition, a REP that is in default with respect to the requirements set forth in paragraphs (b), (c), or (d) above must, subject to the limitations and requirements of the bankruptcy code if the REP is a debtor in bankruptcy, select and implement one of the following options:

- (1) Allow the provider of last resort (POLR) or a qualified REP of the retail customer's choosing to immediately assume the responsibility for the billing and collection of system restoration charges.

- (2) Immediately implement other mutually suitable and agreeable arrangements with the servicer. It is expressly understood that the servicer's ability to agree to any other arrangements will be limited by the terms of the servicing agreement and requirements of each of the rating agencies that have rated the system restoration bonds necessary to avoid a suspension, withdrawal, or downgrade of the ratings on the system restoration bonds.
- (3) Arrange that all amounts owed by retail customers for services rendered be timely billed and immediately paid directly into a lock-box controlled by the servicer with such amounts to be applied first to pay system restoration charges before the remaining amounts are released to the REP. All costs associated with this mechanism will be borne solely by the REP.

If a REP that is in default fails to immediately select and implement one of the foregoing options or, after so selecting one of the foregoing options, fails to adequately meet its responsibilities thereunder, then the servicer must immediately implement option (1), subject to the limitations and requirements of the bankruptcy code if the REP is a debtor in bankruptcy. Upon re-establishment of compliance with the requirements set forth in paragraphs (b), (c) and (d) above and the payment of all past-due amounts and associated penalties, the REP will no longer be required to comply with this paragraph.

f. Interest of REPs (including the POLR) in Funds Held by Servicer.

Any interest that a REP (including the POLR) may have in any funds in the hands of the servicer must be junior and subordinate to any and all rights of the indenture trustee or BondCo to such funds.

g. Billing by Providers of Last Resort.

The POLR appointed by the Commission must meet the minimum credit rating or the deposit or credit support requirements described in paragraph (a) in addition to any other standards that may be adopted by the Commission. If the POLR defaults or is not eligible to provide such services, responsibility for billing and collection of system restoration charges will immediately be transferred to and assumed by the servicer until a new POLR can be named by the Commission or the customer requests the services of a certified REP. Retail customers may never be re-billed by the successor REP, the POLR,

or the servicer for any amount of system restoration charges they have paid their REP (although future system restoration charges must reflect REP and other system-wide charge-offs). Additionally, if the amount of the penalty detailed in paragraph (d) is the sole remaining past-due amount after the 45th calendar day, the REP must not be required to comply with clauses (1), (2), or (3) of paragraph (e) above, unless the penalty is not paid within an additional 30 calendar days.

h. Disputes.

In the event that a REP disputes any amount of billed system restoration charges, the REP must pay the disputed amount under protest according to the timelines detailed in paragraph (d). The REP and servicer must first attempt to informally resolve the dispute, but if they fail to do so within 30 calendar days, either party may file a complaint with the Commission. If the REP is successful in the dispute process (informal or formal), the REP must be entitled to interest on the disputed amount paid to the servicer at the Commission-approved interest rate. Disputes about the date of receipt of system restoration charge payments (and penalties arising thereof) or the size of a required REP deposit will be handled in a like manner. It is expressly intended that any interest paid by the servicer on disputed amounts must not be recovered through system restoration charges if it is determined that the servicer's claim to the funds is clearly unfounded. No interest must be paid by the servicer if it is determined that the servicer has received inaccurate metering data from another entity providing competitive metering services under PURA § 39.107.

i. Metering Data.

If the servicer is providing the metering, metering data will be provided to the REP at the same time as the billing. If the servicer is not providing the metering, the entity providing the metering services will be responsible for complying with Commission rules and ensuring that the servicer and the REP receive timely and accurate metering data in order for the servicer to meet its obligations under the servicing agreement and this Financing Order with respect to billing and true-ups.

j. Charge-Off Allowance.

The REP will be allowed to hold back an allowance for charge-offs in its payments to the servicer. Such charge-off rate will be recalculated each year in connection with the

annual true-up procedure. In the initial year, REPs will be allowed to remit payments based on the same charge-off percentage then being used by the REP to remit payments to the servicer in connection with transition charges related to transition bonds issued by AEP Texas Central Transition Funding III, LLC in March 2012 under the financing order in Docket No. 39931. On an annual basis in connection with the true-up process, the REP and the servicer will be responsible for reconciling the amounts held back with amounts actually written off as uncollectible in accordance with the terms agreed to by the REP and the servicer, provided that:

- (1) The REP's right to reconciliation for write-offs will be limited to customers whose service has been permanently terminated and whose entire accounts (i.e., all amounts due the REP for its own account as well as the portion representing system restoration charges) have been written off.
- (2) The REP's recourse will be limited to a credit against future system restoration charge payments unless the REP and the servicer agree to alternative arrangements, but in no event will the REP have recourse to the indenture trustee, BondCo, or BondCo's funds for such payments.
- (3) The REP must provide information on a timely basis to the servicer so that the servicer can include the REP's default experience and any subsequent credits into its calculation of the adjusted system restoration charge rates for the next system restoration-charge billing period and the REP's rights to credits will not take effect until after such adjusted system restoration-charge rates have been implemented.

k. Service Termination.

In the event that the servicer is billing retail customers for system restoration charges, the servicer must have the right to terminate transmission and distribution service to the end-use customer for non-payment by the end-use customer under applicable Commission rules. In the event that a REP or the POLR is billing retail customers for system restoration charges, the REP or POLR must have the right to transfer the customer to the POLR (or to another certified REP) or to direct the servicer to terminate transmission

and distribution service to the end-use customer for non-payment in accordance with the applicable Commission rules.

56. The proposed billing and collection standards for REPs are the same as those adopted in Docket Nos. 32475 and 39931 and currently applied by AEP Texas in its capacity as servicer under the transition bonds issued in accordance with the financing orders in those dockets.
57. The proposed billing and collection standards for REPs and the applicability of those standards are appropriate for the collection of system restoration charges resulting from this Financing Order, are reasonable, will lower risks associated with the collection of system restoration charges, and will result in lower system restoration bond charges and greater benefits to ratepayers. In addition, adoption of these standards will provide uniformity of standards for the billing and collection of system restoration charges for which AEP Texas acts as servicer. Therefore, the proposed billing and collection standards for REPs and the applicability of those standards described in finding of fact numbers 54 and 55 should be approved.

6. System Restoration Bonds

58. BondCo will issue and sell system restoration bonds in one series consisting of one or more tranches. The legal final maturity date of any series of system restoration bonds will not exceed 15 years from the date of issuance of such series. The legal final maturity date of each series and tranche within a series and amounts in each series will be finally determined by AEP Texas and the Commission's designated representative, consistent with market conditions and indications of the rating agencies, at the time the system restoration bonds are priced, but subject to ultimate Commission review through the issuance advice letter process. AEP Texas will retain sole discretion regarding whether or when to assign, sell, or otherwise transfer any rights concerning transition property arising under this Financing Order, or to cause the issuance of any system restoration bonds authorized in this Financing Order, subject to the right of the Commission to find that the proposed issuance does not comply with the requirements of PURA and this Financing Order. BondCo will issue the system restoration bonds on or after the fifth business day after pricing of the system restoration bonds unless, before noon on the fourth business day following pricing of the

bonds, the Commission issues an order finding that the proposed issuance does not comply with the requirements of PURA and this Financing Order.

59. The Commission finds that the proposed structure—providing for substantially levelized annual revenue requirements over the expected life of the system restoration bonds—is in the public interest and should be used. This structure offers the benefit of not relying upon customer growth and will allow the resulting system restoration charges to remain level or decline over time, if billing determinants remain level or grow. The approved structure is reasonable and should be approved, provided that the issuance advice letter demonstrates that all of the statutory financial requirements are met. This restriction is necessary to ensure that the stated economic benefits to ratepayers materialize.

7. Security for System Restoration Bonds

60. The payment of the system restoration bonds and related charges authorized by this Financing Order is to be secured by the transition property created by this Financing Order and by certain other collateral as described in the application. Each series of the system restoration bonds will be issued under an indenture administered by the indenture trustee. The indenture will include provisions for a collection account for the series and subaccounts for the collection and administration of the system restoration charges and payment or funding of the principal and interest on the system restoration bonds and other costs, including fees and expenses, in connection with the system restoration bonds, as described in AEP Texas's application. In accordance with the indenture, BondCo will establish a collection account as a trust account to be held by the indenture trustee as collateral to ensure the payment of the principal, interest, and other costs approved in this Financing Order related to the system restoration bonds in full and on a timely basis. The collection account will include the general subaccount, the capital subaccount, and the excess funds subaccount, and may include other subaccounts.

a. The General Subaccount

61. The indenture trustee will deposit the system restoration charge remittances that the servicer remits to the indenture trustee for the account of BondCo into one or more segregated trust accounts and allocate the amount of those remittances to the general subaccount. The indenture trustee will on a periodic basis apply moneys in this subaccount

to pay expenses of BondCo, to pay principal and interest on the system restoration bonds, and to meet the funding requirements of the other subaccounts. The funds in the general subaccount will be invested by the indenture trustee in short-term high-quality investments, and such funds (including, to the extent necessary, investment earnings) will be applied by the indenture trustee to pay principal and interest on the system restoration bonds and all other components of the periodic payment requirement (as defined in finding of fact number 76), and otherwise in accordance with the terms of the indenture.

b. The Capital Subaccount

62. When a series of system restoration bonds is issued, AEP Texas will make a capital contribution to BondCo for that series, which BondCo will deposit into the capital subaccount. The amount of the capital contribution is expected to be not less than 0.5% of the original principal amount of each series of system restoration bonds, although the actual amount will depend on tax and rating agency requirements. The capital subaccount will serve as collateral to ensure timely payment of principal and interest on the system restoration bonds and all other components of the periodic payment requirement. Any funds drawn from the capital account to pay these amounts due to a shortfall in the system restoration charge remittances will be replenished through future system restoration charge remittances. The funds in this subaccount will be invested by the indenture trustee in short-term high-quality investments, and such funds (including investment earnings) will be used by the indenture trustee to pay principal and interest on the system restoration bonds and all other components of the periodic payment requirement. If AEP Texas is required to make a capital contribution in excess of 0.5% of the original principal amount of any series of bonds, AEP Texas will be authorized to receive an aggregate amount equal to the sum of the (i) actual amounts earned by the trustee from investment of the capital contribution (up to 0.5% of the original principal amount of such series) and (ii) an annual return at the authorized pre-tax return on equity established in AEP Texas's most recent base-rate case on the remainder of the capital contribution for such series. The required revenue, if any, to provide the annual return at the pre-tax equity return established in AEP Texas's most recent base-rate case is an ongoing qualified cost. Upon payment of the principal amount of all system restoration bonds and the discharge of all obligations that may be paid by use of system restoration charges, all amounts in the capital subaccount, including any

investment earnings, will be released to BondCo for payment to AEP Texas. Investment earnings in this subaccount may be released earlier in accordance with the indenture.

63. The capital contribution to BondCo will be funded by AEP Texas. To ensure that ratepayers receive the appropriate benefit from the securitization approved in this Financing Order, the proceeds from the sale of the system restoration bonds will not be applied towards this capital contribution. Because AEP Texas funds the capital subaccount, AEP Texas will receive the investment earnings that are earned through the indenture trustee's investment of that capital from time to time, and if AEP Texas is required to make a capital contribution in excess of 0.5% of the original principal amount of any series of system restoration bonds, AEP Texas is authorized to receive an aggregate amount equal to the sum of (i) the actual amounts earned by the trustee from investment of the capital contribution (up to 0.5% of the original principal amount of such series) and (ii) an annual return on the remainder of the capital contribution for such series at AEP Texas's then-authorized rate of return on equity. The required revenue, if any, to provide an annual return on any such additional capital at AEP Texas's then-authorized rate of return on equity is an ongoing qualified cost. Upon payment of the principal amount of all system restoration bonds and the discharge of all obligations that may be paid by use of system restoration charges, all amounts in the capital subaccount, including any investment earnings, will be released to BondCo for payment to AEP Texas. Investment earnings in this subaccount may be released earlier in accordance with the indenture.

c. The Excess Funds Subaccount

64. The excess funds subaccount will hold any system restoration charge remittances and investment earnings on the collection account (other than earnings attributable to the capital subaccount and released under the terms of the indenture) in excess of the amounts needed to pay current principal and interest on the system restoration bonds and to pay other periodic payment requirements (including, but not limited to, replenishing the capital subaccount). Any balance in or allocated to the excess funds subaccount on a true-up adjustment date will be subtracted from the periodic billing requirement (as defined in finding of fact number 77) for purposes of the true-up adjustment. The money in this subaccount will be invested by the indenture trustee in short-term high-quality investments, and such money (including investment earnings thereon) will be used by the indenture

trustee to pay principal and interest on the system restoration bonds and other periodic payment requirements.

d. Other Subaccounts

65. Other credit enhancements in the form of subaccounts may be utilized for the transaction provided that the Commission's designated representative and AEP Texas agree in advance that such enhancements provide benefits greater than their tangible and intangible costs. For example, AEP Texas does not propose use of an overcollateralization subaccount as was approved in Docket No. 21528 in connection with its first securitization of regulatory assets. Under Rev. Proc. 2002-49, as modified, amplified and superseded by Rev. Proc. 2005-62 issued by the Internal Revenue Service (IRS), the use of an overcollateralization subaccount is not necessary for favorable tax treatment nor does it appear to be necessary to obtain AAA ratings for the proposed system restoration bonds. If the Commission's designated representative and AEP Texas subsequently agree, however, that use of an overcollateralization subaccount or other subaccount are necessary to obtain AAA ratings or will otherwise increase the tangible and quantifiable benefits of the securitization, AEP Texas may implement such subaccounts to reduce system restoration bond charges.

8. General Provisions

66. The collection account and the subaccounts described above are intended to provide for full and timely payment of scheduled principal and interest on the system restoration bonds and all other components of the periodic payment requirement. If the amount of system restoration charges remitted to the general subaccount is insufficient to make all scheduled payments of principal and interest on the system restoration bonds and to make payment on all of the other components of the periodic payment requirement, the excess funds subaccount and the capital subaccount will be drawn down, in that order, to make those payments. Any deficiency in the capital subaccount due to such withdrawals must be replenished to the capital subaccount on a periodic basis through the true-up process. In addition to the foregoing, there may be such additional accounts and subaccounts as are necessary to segregate amounts received from various sources (i.e., amounts received from REPs), or to be used for specified purposes. Such accounts will be administered and utilized as set forth in the servicing agreement and the indenture. Upon the maturity of the system restoration bonds and the discharge of all obligations in respect thereof, remaining

amounts in the collection account, other than amounts that were in the capital subaccount, will be released to BondCo and equivalent amounts will be credited by AEP Texas to customers in accordance with PURA § 39.262(g).

67. The use of a collection account and its subaccounts in the manner proposed by AEP Texas is reasonable, will lower risks associated with the securitization and thus lower the costs to ratepayers, and should, therefore, be approved.

9. System Restoration Charges—Imposition and Collection, Nonbypassability, and Self-Generation

68. AEP Texas seeks authorization to impose on and collect from REPs and from other entities that are required to bill, pay, or collect system restoration charges under this Financing Order or the tariffs approved in this Financing Order, system restoration charges in an amount sufficient to provide for the timely recovery of its qualified costs approved in this Financing Order (including payment of principal and interest on the system restoration bonds and ongoing costs related to the system restoration bonds).
69. System restoration charges will be separately identified on bills presented to REPs and other entities obligated to pay or collect system restoration charges.
70. If a REP or other entity does not pay the full amount it has been billed, the amount paid by the REP or such other entity will first be apportioned between the system restoration charges and other fees and charges (including amounts billed and due in respect of transition charges or system restoration charges associated with transition bonds or system restoration bonds issued under other past or future financing orders), other than late fees, and second, any remaining portion of the payment will be allocated to late fees. This allocation will facilitate a proper balance between the competing claims to this source of revenue in an equitable manner.
71. The system restoration bonds may have a scheduled final payment not to exceed 14 years. However, amounts may still need to be recovered after the expiration of the scheduled final payment date. AEP Texas proposed that the system restoration charges related to a series of system restoration bonds will be recovered over a period of not more than 15 years from the date of issuance of that series of the system restoration bonds but that amounts due at

or before the end of that period for system restoration charges allocable to the 15-year period may be collected after the conclusion of the 15-year period.

72. PURA § 39.303(b) prohibits the recovery of system restoration charges for a period of time that exceeds 15 years. System restoration charges related to a series of system restoration bonds may not be collected for periods after 15 years from the date of issuance of that series of bonds. This restriction does not, however, prevent the collection of amounts due at the end of such 15-year period for system restoration charges allocable to such 15-year period.
73. AEP Texas will collect system restoration charges (i) from all REPs serving existing and future retail customers located within AEP Texas's central division's certificated service area as it existed on the date of this Financing Order and (ii) from other entities (serving such existing and future retail customers) which are required to bill, pay, or collect system restoration charges under this Financing Order or the tariffs approved hereby. Any such existing or future retail customer within such area may not avoid system restoration charges by switching to another electric utility, electric cooperative, or municipally owned utility on or after the date this Financing Order is issued.⁶⁰
74. A retail customer may not avoid the payment of system restoration charges by switching to new on-site generation. New on-site generation means electric generation capacity greater than 10 megawatts capable of being lawfully delivered to a site without use of utility distribution or transmission facilities and which was not, on or before the date this Financing Order is issued, either (A) a fully operational facility, or (B) a project supported by substantially complete filings for all necessary site-specific environmental permits under the rules of the Texas Commission on Environmental Quality.⁶¹ If a customer commences taking energy from new on-site generation that materially reduces the customer's use of energy delivered through AEP Texas's facilities, the customer will pay an amount each month computed by multiplying the output of the on-site generation utilized to meet the internal electrical requirements of the customer by the applicable

⁶⁰ See PURA §§ 36.404; 39.252(c).

⁶¹ See PURA §§ 36.404; 39.252(b)(1); 262(k).

system restoration charges in effect for that month.⁶² Any reduction equivalent to more than 12.5% of the customer's annual average use of energy delivered through AEP Texas's facilities will be considered material for this purpose. Payments of the system restoration charges owed by such ratepayers will be made to the servicer and will be collected in addition to any other charges applicable to services provided to the customer through AEP Texas's facilities and any other charges applicable to self-generation.⁶³

75. AEP Texas's proposal related to imposition and collection of system restoration charges is reasonable and is necessary to ensure collection of system restoration charges sufficient to support recovery of the qualified costs approved in this Financing Order and should be approved. It is reasonable to approve the form of AEP Texas's schedule SRC and rider SRC in this Financing Order and require that these tariff provisions be filed before any system restoration bonds are issued under this Financing Order.

10. Allocation of Qualified Costs Among Texas Retail Customers

76. The periodic payment requirement is the required periodic payment for a given period (e.g., annually, semiannually, or quarterly) due under the system restoration bonds. Each periodic payment requirement includes: (a) the principal amortization of the system restoration bonds in accordance with the expected amortization schedule (including deficiencies of previously scheduled principal for any reason); (b) periodic interest on the system restoration bonds (including any accrued and unpaid interest); and (c) ongoing qualified costs consisting of the servicing fee, rating agencies' fees, trustee fees, legal and accounting fees, other ongoing fees and expenses, and the costs, if any, of maintaining any credit enhancement. The initial periodic payment requirement for the system restoration bonds issued under this Financing Order should be updated in the issuance advice letter.
77. The periodic billing requirement represents the aggregate dollar amount of system restoration charges that must be billed during a given period (e.g., annually, semiannually, or quarterly) so that the system restoration charge collections will be sufficient to meet the sum of all periodic payment requirement for that period, given: (i) forecast usage data for

⁶² See PURA §§ 36.404; 39.252(b)(2).

⁶³ *Id.*

the period; (ii) forecast uncollectibles for the period; and (iii) forecast lags in collection of billed system restoration charges for the period.

- 78. The system restoration costs that will be recovered through the SRC system restoration charges authorized by this Financing Order are allocated among the customer classes using an approach based on a set of periodic billing requirement allocation factors (PBRAFs) approved in Docket No. 48577. This approach is reasonable and the PBRAFs calculated in accordance with it should be adopted.
- 79. Under the approach described in finding of fact number 78, the Commission adopts the following PBRAFs:

<u>SRC Rate Class</u>	<u>PBRAf</u>
Residential	52.5194%
Secondary Service Less Than or Equal to 10 kW	2.9287%
Secondary Service Greater Than 10 kW	31.8567%
Primary Service	6.0053%
Lighting Service	6.6899%

11. True-Up of System Restoration Charges

- 80. Under PURA § 39.307, the servicer of the system restoration bonds will make annual adjustments to the system restoration charges to:
 - (a) correct any undercollections or overcollections, including without limitation any caused by REP defaults, during the preceding 12 months; and
 - (b) ensure the billing of system restoration charges necessary to generate the collection of amounts sufficient to timely provide all scheduled payments of principal and interest (or deposits to sinking funds in respect of principal and interest) and any other amounts due in connection with the system restoration bonds (including ongoing fees and expenses and amounts required to be deposited in or allocated to any collection account or subaccount, trustee indemnities, payments due in connection with any expenses incurred by the indenture trustee or the servicer to enforce bondholder rights and all other payments that may be required under the waterfall of payments set forth in the indenture) during the period for which such adjusted system restoration charges are to be in effect.

With respect to any series of system restoration bonds, the servicer will make true-up adjustment filings with the Commission at least annually, within 45 days of the anniversary of the date of the original issuance of the system restoration bonds of that series.

81. True-up filings will be based upon the cumulative differences, regardless of the reason, between the periodic payment requirement (including scheduled principal and interest payments on the system restoration bonds) and the amount of system restoration charge remittances to the indenture trustee. True-up procedures are necessary to ensure full recovery of amounts sufficient to meet the periodic payment requirement over the expected life of the system restoration bonds. To assure adequate system restoration charge revenues to fund the periodic payment requirement and to avoid large overcollections and undercollections over time, the servicer will reconcile the system restoration charges using AEP Texas's most recent forecast of electricity deliveries (i.e., forecasted billing units) and estimates of transaction-related expenses. The calculation of the system restoration charges will also reflect both a projection of uncollectible system restoration charges and a projection of payment lags between the billing and collection of system restoration charges based upon AEP Texas's and the REPs' most recent experience regarding collection of system restoration charges.
82. The servicer will make true-up adjustments in the following manner, known as the standard true-up procedure:
 - (a) allocate the upcoming period's periodic billing requirement based on the PBRAFs approved in this Financing Order;
 - (b) calculate undercollections or overcollections, including without limitation any caused by REP defaults, from the preceding period in each class by subtracting the previous period's system restoration charge revenues collected from each class from the periodic billing requirement determined for that class for the same period;
 - (c) sum the amounts allocated to each customer class in steps (a) and (b) to determine an adjusted periodic billing requirement for each system restoration charge customer class; and

- (d) divide the amount assigned to each customer class in step (c) above by the appropriate forecasted billing units to determine the system restoration charge rate by class for the upcoming period.

12. Interim True-Up

83. In addition to these annual true-up adjustments, true-up adjustments may be made by the servicer more frequently at any time during the term of the system restoration bonds to correct any undercollection or overcollection, as provided for in this Financing Order, in order to assure timely payment of system restoration bonds based on rating agency and bondholder considerations. Further, the servicer must make a mandatory interim true-up adjustment semi-annually (or quarterly after the final scheduled payment date of the last tranche of the system restoration bonds):

- (a) if the servicer forecasts that system restoration charge collections will be insufficient to make all scheduled payments of principal, interest, and other amounts in respect of the system restoration bonds on a timely basis during the current or next succeeding payment period; or
- (b) to replenish any draws upon the capital subaccount.

84. In the event an interim true-up (whether mandatory or optional) is necessary, the interim true-up adjustment must use the methodology utilized in the most recent annual true-up and be filed not less than 15 days before the first billing cycle of the month in which the revised system restoration charges will be in effect. In no event will mandatory interim true-up adjustments occur more frequently than every six months if semi-annual system restoration bond payments are required, or every three months if quarterly system restoration bond payments are required; provided, however, that mandatory interim true-up adjustments after the final scheduled payment date of the last tranche of the system restoration bonds must occur quarterly.

13. Non-Standard True-Up

85. In accordance with the procedure set forth in finding of fact number 87, a non-standard true-up procedure will be implemented as the annual true-up adjustment if the forecasted billing units for one or more of the system restoration charge customer classes for an

upcoming period decreases by more than 10% compared to the billing units approved in this Financing Order (known as the threshold billing units), shown in appendix E to this Financing Order.

86. In conducting the non-standard true-up, the servicer will:
- (a) allocate the upcoming period's periodic billing requirement based on the PBRAFs approved in this Financing Order;
 - (b) calculate undercollections or overcollections, including without limitation any caused by REP defaults, from the preceding period in each class by subtracting the previous period's system restoration charge revenues collected from each class from the periodic billing requirement determined for that class for the same period;
 - (c) sum the amounts allocated to each customer class in steps (a) and (b) to determine an adjusted periodic billing requirement for each system restoration charge customer class;
 - (d) divide the periodic billing requirement for each customer class by the greater of the forecasted billing units or the threshold billing units for that class, to determine the threshold rate;
 - (e) multiply the threshold rate by the forecasted billing units for each class to determine the expected collections under the threshold rate;
 - (f) allocate the difference in the adjusted periodic billing requirement and the expected collections calculated in step (e) among the system restoration charge customer classes using the PBRAFs approved in this Financing Order;
 - (g) add the amount allocated to each class in step (f) above to the expected collection amount by class calculated in step (e) above to determine the final periodic billing requirement for each class; and
 - (h) divide the final periodic billing requirement for each class by the forecasted billing units to determine the system restoration charge rate by class for the upcoming period.
87. A proceeding for the purpose of approving a non-standard true-up should be conducted in the following manner:

- (a) The servicer will make a non-standard true-up filing with the Commission at least 90 days before the date of the proposed true-up adjustment. The filing will contain the proposed changes to the system restoration charge rates, justification for such changes as necessary to specifically address the cause or causes of the proposed non-standard true-up, and a statement of the proposed effective date.
- (b) Concurrently with the filing of the non-standard true-up with the Commission, the servicer will notify all parties in this docket of the filing of the proposal for a non-standard true-up.
- (c) The servicer will issue appropriate notice and the Commission will conduct a contested case proceeding on the non-standard true-up proposal under PURA § 39.003.

The scope of the proceeding will be limited to determining whether the proposed adjustment complies with this Financing Order. The Commission will issue a final order by the proposed true-up adjustment date stated in the non-standard true-up filing. In the event that the Commission cannot issue an order by that date, the servicer will be permitted to implement its proposed changes. Any modifications subsequently ordered by the Commission will be made by the servicer in the next true-up filing.

14. Additional True-Up Provisions

- 88. The true-up adjustment filing will set forth the servicer's calculation of the true-up adjustment to the system restoration charges. As provided in schedule SRC, except for the non-standard true-up in finding of fact numbers 85 through 87, the Commission will have 15 days after the date of a true-up adjustment filing in which to confirm the mathematical accuracy of the servicer's adjustment. As provided in schedule SRC, except for the non-standard true-up adjustment described above, any true-up adjustment filed with the Commission should be effective on its proposed effective date, which must be not less than 15 days after filing. Any necessary corrections to the true-up adjustment, due to mathematical errors in the calculation of such adjustment or otherwise, will be made in future true-up adjustment filings.

89. The true-up procedures contained in schedule SRC are reasonable and will reduce risks related to the system restoration bonds, resulting in lower system restoration bond charges and greater benefits to ratepayers and should be approved.
90. The broad-based nature of the true-up mechanism and the pledge of the State of Texas embodied in PURA § 39.310, along with the bankruptcy remoteness of the special purpose entity and the collection account, will serve to minimize credit risk associated with the system restoration bonds (i.e., that sufficient funds will be available and paid to discharge all principal and interest obligations when due).

15. Designated Representative

91. To ensure, as required by PURA § 39.301, that the structuring and pricing of the system restoration bonds result in the lowest system restoration bond charges consistent with market conditions and the terms of this Financing Order, the Commission finds that it is necessary for the Commission or its designated representative to have a decision-making role co-equal with AEP Texas with respect to the structuring and pricing of the system restoration bonds and that all matters related to the structuring and pricing of the system restoration bonds must be determined through a joint decision of AEP Texas and the Commission or its designated representative. The Commission's primary goal is to ensure that the structuring and pricing of the system restoration bonds result in the lowest system restoration bond charges consistent with market conditions and the terms of this Financing Order.
92. The Commission or its designated representative must have an opportunity to participate fully and in advance in all plans and decisions relating to the structuring, marketing, and pricing of the system restoration bonds and must be provided timely information as necessary to allow it to participate in a timely manner (including, but not limited to, information prepared for the benefit of rating agencies and information prepared for use in marketing the system restoration bonds to investors).
93. The Commission or its designated representative may require a certificate from each bookrunning underwriter confirming that the structuring, marketing, and pricing of the system restoration resulted in the lowest system restoration bond charges consistent with market conditions, the marketing plan, and the terms of this Financing Order.

94. AEP Texas stated that it expected the following transaction documents to be executed in connection with each series of system restoration bonds issued under this Financing Order and that it expected the form of each document to be consistent in all material respects with those used in its last securitization: administration agreement, indenture, limited liability company agreement, transition property servicing agreement, and transition property purchase and sale agreement. The Commission's designated representative must be afforded an opportunity to review and comment on these documents before they are finalized, and the final versions must be consistent with this Financing Order.

16. Lowest System Restoration Bond Charges

95. AEP Texas has proposed a transaction structure that is expected to include (but is not limited to):

- (a) the use of BondCo as issuer of the system restoration bonds, limiting the risks to system restoration bond holders of any adverse impact resulting from a bankruptcy proceeding of its parent or any affiliate;
- (b) the right to impose and collect system restoration charges that are nonbypassable and which must be trued-up at least annually, but may be trued-up more frequently under certain circumstances, to assure the timely payment of the debt service and other ongoing qualified costs;
- (c) additional collateral in the form of a collection account that includes a capital subaccount funded in cash in an amount equal to not less than 0.5% of the original principal amount of the system restoration bonds and other subaccounts resulting in greater certainty of payment of interest and principal to investors and that are consistent with the IRS requirements that must be met to receive the desired federal income tax treatment for the system restoration bond transaction;
- (d) protection of system restoration bondholders against potential defaults by a servicer or REPs that are responsible for billing and collecting the system restoration charges from existing or future retail customers;
- (e) benefits for federal income tax purposes including (i) the transfer of the rights under this Financing Order to BondCo not resulting in gross income to AEP Texas and

- the future revenues under the system restoration charges being included in AEP Texas's gross income under its usual method of accounting, (ii) the issuance of the system restoration bonds and the transfer of the proceeds of the system restoration bonds to AEP Texas not resulting in gross income to AEP Texas, and (iii) the system restoration bonds constituting obligations of AEP Texas;
- (f) the system restoration bonds will be marketed using proven underwriting and marketing processes, through which market conditions and investors' preferences, with regard to the timing of the issuance, the terms and conditions, related maturities, and other aspects of the structuring and pricing, will be determined, evaluated and factored into the structuring and pricing of the system restoration bonds; and
- (g) furnishing timely information to the Commission's designated representative to allow the Commission through the issuance advice letter process to ensure that the structuring and pricing of the system restoration bonds result in the lowest system restoration bond charges consistent with market conditions and the terms of this Financing Order.
96. AEP Texas's proposed transaction structure is necessary to enable the system restoration bonds to obtain the highest possible bond credit rating, ensures that the structuring and pricing of the system restoration bonds will result in the lowest system restoration bond charges consistent with market conditions and the terms of this Financing Order, ensures the greatest benefit to ratepayers consistent with market conditions and the terms of this Financing Order, and protects the competitiveness of the retail electric market.
97. To ensure that ratepayers receive the tangible and quantifiable economic benefits due from the proposed securitization and so that the proposed system restoration bond transaction will be in accordance with the standards set forth in PURA §§ 36.401, 36.403, 39.301 and 39.303, it is necessary that (i) the issuance advice letter demonstrates that the transaction is expected to provide benefits to customers on both the total revenue (i.e., nominal) and present value bases compared to collection of the securitized balance through conventional financing, (ii) the scheduled final payment of the last tranche of system restoration bonds will not exceed 14 years (although the legal final maturity of the system restoration bonds

may extend to 15 years), (iii) the amortization of the system restoration bonds is structured to be in accordance with finding of fact numbers 58 and 59, and (iv) AEP Texas otherwise satisfies the requirements of this Financing Order.

98. To allow the Commission to fulfill its obligations under PURA related to the securitization approved in this Financing Order, it is necessary for AEP Texas, for each series of system restoration bonds issued, to certify to the Commission that the structure and pricing of that series results in the lowest system restoration bond charges consistent with (1) market conditions at the time that the system restoration bonds are priced and (2) the terms (including the specified amortization pattern) of this Financing Order and, if additional credit enhancements or arrangements to enhance marketability or reduce interest rate risks were used, to certify that they are expected to provide benefits in excess of their cost as required by finding of fact numbers 30 through 33 of this Financing Order.

D. Use of Proceeds

99. Upon the issuance of system restoration bonds, BondCo will use the net proceeds from the sale of the system restoration bonds (after payment of up-front qualified costs) to pay to AEP Texas the purchase price of the transition property. The proceeds from the sale of the transition property will be applied by AEP Texas to reduce its recoverable system restoration costs. The proposed accounting entries will result in removal of the regulatory asset representing the distribution portion of recoverable system restoration costs from AEP Texas's books. Thereafter, bond proceeds will be used to repay any outstanding short-term debt at AEP Texas and to fund capital expenditures to support utility operations and services. The specific application of the proceeds will be determined by market conditions and AEP Texas's expected future expenditures at the time the proceeds are received.

E. Informal Disposition

100. More than 15 days have passed since the completion of notice provided in this docket.
101. AEP Texas, ARM, and Commission Staff are the only parties to this proceeding.
102. No party requested a hearing and no hearing is needed.
103. Commission Staff recommended approval of the application.

104. This decision is not adverse to any party.

IV. Conclusions of Law

The Commission makes the following conclusions of law.

1. AEP Texas is a public utility, as defined in PURA § 11.004, an electric utility, as defined in PURA § 31.002(6), and a transmission and distribution utility as defined in PURA § 31.002(19).
2. AEP Texas is entitled to file an application for a financing order under PURA § 36.401.
3. The Commission has jurisdiction and authority over AEP Texas's application under PURA §§ 14.001, 32.001, 36.401 through 36.406, and 39.301 through 39.313.
4. The Commission has authority to approve this Financing Order under PURA chapter 36, subchapter I and chapter 39, subchapter G.
5. Notice of AEP Texas's application was provided in compliance with the Administrative Procedure Act⁶⁴ and 16 Texas Administrative Code (TAC) §§ 22.54 and 22.55.
6. This application does not constitute a major rate proceeding as defined by 16 TAC § 22.2.
7. PURA chapter 36, subchapter I allows an electric utility to securitize its system restoration costs as determined in separate proceedings under that subchapter.
8. BondCo will be an assignee as defined in PURA § 39.302(1) when an interest in the transition property created under this Financing Order is transferred, other than as security, to BondCo.
9. The holders of the system restoration bonds and the indenture trustee will each be a financing party as defined in PURA § 39.302(3).
10. BondCo may issue system restoration bonds in accordance with this Financing Order.
11. The securitization approved in this Financing Order results in the removal of the regulatory asset representing the distribution-related portion of system restoration costs from AEP Texas's books and satisfies the requirement of PURA § 36.401(a) dictating that the

⁶⁴ Administrative Procedure Act, Tex. Gov't Code §§ 2001.001–.902.

proceeds of the system restoration bonds must be used solely for the purposes of reducing the amount of recoverable system restoration costs, including the refinancing or retirement of utility debt or equity.

12. The securitization approved in this Financing Order satisfies the requirement of PURA § 36.401(b)(2) mandating that the securitization provides tangible and quantifiable benefits to ratepayers greater than would have been achieved absent the issuance of system restoration bonds. Consistent with fundamental financial principles, this requirement in PURA § 36.401 can only be determined using an economic analysis to account for the time value of money. An analysis that compares in the aggregate over the expected life of the system restoration bonds, the present value of the revenue requirement associated with use of conventional financing to the present value of the revenue required under securitization is an appropriate economic analysis to demonstrate whether securitization provides economic benefits to ratepayers.
13. PURA § 36.402(b) specifies that system restoration costs include carrying costs at the utility's weighted average cost of capital as last approved by the Commission in a general rate proceeding from the date the system restoration costs were incurred until they are recovered. As a result, for purposes of the present value, nominal revenue, and other financial tests, it is necessary to compute the revenue requirements associated with non-securitized rates reflecting conventional utility financing using a weighted average cost of capital of 7.4992%, which is the weighted average cost of capital last approved in an AEP Texas general rate proceeding.
14. BondCo's issuance of the system restoration bonds approved in this Financing Order in compliance with the criteria established by this Financing Order satisfies the requirement of PURA § 39.301 prescribing that the structuring and pricing of the system restoration bonds will result in the lowest system restoration charges consistent with market conditions and the terms of this Financing Order.
15. The amount approved in this Financing Order for securitization does not exceed the present value of the revenue requirement over the life of the system restoration bonds approved in this Financing Order that are associated with the costs sought to be securitized, as required by PURA § 39.301.

Docket No. 49308

Financing Order

Page 61 of 86

16. The securitization approved in this Financing Order satisfies the requirements of PURA § 39.303(a) directing that the total amount of revenues to be collected under this Financing Order be less than the revenue requirement that would be recovered using conventional financing methods and that this Financing Order be in accordance with the standards of PURA § 39.301.
17. Under PURA §§ 36.401, 36.403, 39.301 and 39.303, the Commission has the ability to prohibit different financial options relating to the system restoration bonds if the evidence supports the finding that the financial option will not or is unlikely to result in the lowest system restoration charges consistent with market conditions.
18. This Financing Order adequately details the amount to be recovered and the period over which AEP Texas will be permitted to recover nonbypassable system restoration charges in accordance with the requirements of PURA §§ 36.403 and 36.404. System restoration charges related to a series of system restoration bonds may not be collected after 15 years from the date of issuance of that series of bonds. This provision does not preclude the servicer from recovering system restoration charges attributable to service rendered during the 15-year period but remaining unpaid at the end of the 15-year period.
19. The method approved in this Financing Order for collecting and allocating the system restoration charges satisfies the requirements of PURA § 36.403(g).
20. As provided in PURA § 39.303(d), this Financing Order, together with the system restoration charges authorized by this Financing Order, is irrevocable and not subject to reduction, impairment, or adjustment by further act of the Commission, except for the true-up procedures approved in this Financing Order, as required by PURA § 39.307; provided, however, that such irrevocability must not preclude the Commission from extending the deadline for issuance of system restoration bonds if requested to do so by AEP Texas.
21. As provided in PURA § 39.304(a), the rights and interests of AEP Texas or its successor under this Financing Order, including the right to impose, collect, and receive the system restoration charges authorized in this Financing Order, are assignable and become transition property when they are first transferred to BondCo.

22. The rights, interests, and property conveyed to BondCo in the transition property purchase and sale agreement and the related bill of sale, including the irrevocable right to impose, collect, and receive system restoration charges and the revenues and collections from system restoration charges, are transition property within the meaning of PURA §§ 39.302(8) and 39.304.
23. Transition property will constitute a present property right for purposes of contracts concerning the sale or pledge of property, even though the imposition and collection of the system restoration charges depend on further acts by AEP Texas or others that have not yet occurred, as provided by PURA § 39.304(b).
24. All revenues and collections resulting from the system restoration charges will constitute proceeds only of the transition property arising from this Financing Order, as provided by PURA § 39.304(c).
25. Upon the transfer by AEP Texas of transition property to a BondCo, the BondCo will have all of the rights, title, and interest of AEP Texas with respect to such transition property, including the right to impose, collect, and receive the system restoration charges authorized by the Financing Order.
26. The system restoration bonds issued under this Financing Order will be transition bonds within the meaning of PURA §§ 36.403(e) and 39.302(6), and the system restoration bonds and holders thereof are entitled to all of the protections provided under chapter 36, subchapter I and chapter 39, subchapter G of PURA.
27. Amounts that are required to be paid to the servicer as system restoration charges under this Financing Order or the tariffs approved hereby are transition charges as defined in PURA §§ 36.403(f) and 39.302(7), and the amounts collected from retail customers with respect to such system restoration charges are transition charges as defined in PURA §§ 36.403(f) and 39.302(7), whether or not such charges are set out as a separate line item on the retail customer's bill.
28. Any payment of system restoration charges by a retail customer to its REP, to another entity responsible for collecting system restoration charges from retail customers under this Financing Order or the tariffs approved hereunder, or directly to the servicer will discharge

the retail customer's obligations in respect of that payment, but will not discharge the obligations of any REP or other entity responsible for collecting system restoration charges from retail customers under this Financing Order to remit such payments to the servicer of the system restoration bonds on behalf of a BondCo or an assignee or its obligations to pay amounts determined through subsequent true-up adjustments.

29. As provided in PURA § 39.305, the interests of an assignee, the holders of system restoration bonds, and the indenture trustee in transition property and in the revenues and collections arising from that property are not subject to setoff, counterclaim, surcharge, or defense by AEP Texas or any other person or in connection with the bankruptcy of AEP Texas or any other entity.
30. The methodology approved in this Financing Order to true-up the system restoration charges satisfies the requirements of PURA §§ 36.401 and 39.307.
31. If and when AEP Texas transfers to a BondCo the right to impose, collect, and receive the system restoration charges and to issue the system restoration bonds, the servicer will be able to recover the system restoration charges associated with such transition property only for the benefit of the BondCo and the holders of the system restoration bonds in accordance with the servicing agreement.
32. If and when AEP Texas transfers its rights under this Financing Order to a BondCo under an agreement that expressly states that the transfer is a sale or other absolute transfer in accordance with the true-sale provisions of PURA § 39.308, then, in accordance with that statutory provision, that transfer will be a true sale of an interest in transition property and not a secured transaction or other financing arrangement and title, legal and equitable, to the transition property will pass to the BondCo. As provided by PURA § 39.308, this true sale must apply regardless of whether the purchaser has any recourse against the seller, or any other term of the parties' agreement, including the seller's retention of an equity interest in the transition property, AEP Texas's role as the collector of system restoration charges relating to the transition property, or the treatment of the transfer as a financing for tax, financial reporting, or other purposes.
33. As provided in PURA § 39.309(b), a valid and enforceable lien and security interest in the transition property in favor of the holders of the system restoration bonds or a trustee on

their behalf will be created by this Financing Order and the execution and delivery of a security agreement with the holders of the system restoration bonds or a trustee on their behalf in connection with the issuance of the system restoration bonds. The lien and security interest will attach automatically from the time that value is received for the system restoration bonds and, on perfection through the filing of notice with the secretary of state in accordance with the rules prescribed by the secretary of state under PURA § 39.309(d), will be a continuously perfected lien and security interest in the transition property and all proceeds of the transition property, whether accrued or not, will have priority in the order of filing and will take precedence over any subsequent judicial or other lien creditor.

34. As provided in PURA § 39.309(c), the transfer of an interest in transition property to an assignee will be perfected against all third parties, including subsequent judicial or other lien creditors, when this Financing Order becomes effective, transfer documents have been delivered to that assignee, and a notice of that transfer has been filed in accordance with the rules prescribed by the secretary of state under PURA § 39.309(d); provided, however, that if notice of the transfer has not been filed in accordance with this process within 10 days after the delivery of transfer documentation, the transfer of the interest will not be perfected against third parties until the notice is filed. The transfer to a BondCo of AEP Texas's rights under this Financing Order will be a transfer of an interest in transition property for purposes of PURA § 39.309(c).
35. As provided in PURA § 39.309(e), the priority of a lien and security interest perfected in accordance with PURA § 39.309 will not be impaired by any later change in the system restoration charges under PURA § 39.307 or by the commingling of funds arising from system restoration charges with other funds, and any other security interest that may apply to those funds will be terminated when they are transferred to a segregated account for an assignee or a financing party. To the extent that system restoration charges are not collected separately from other funds owed by REPs, the amounts to be remitted to such segregated account for an assignee or a financing party may be determined according to system-wide charge off percentages, collection curves or such other reasonable methods of estimation, as are set forth in the servicing agreement.

Docket No. 49308

Financing Order

Page 65 of 86

36. As provided in PURA § 39.309(e), if transition property is transferred to an assignee, any proceeds of the transition property will be treated as held in trust for the assignee.
37. As provided in PURA § 39.309(f), if a default or termination occurs under the system restoration bonds, the financing parties or their representatives may foreclose on or otherwise enforce their lien and security interest in the relevant transition property as if they were secured parties under chapter 9 of the Texas Business and Commerce Code, and, upon application by or on behalf of the financing parties, the Commission may order that amounts arising from the related system restoration charges be transferred to a separate account for the financing parties' benefit, to which their lien and security interest may apply.
38. As provided in PURA § 39.309(f), if a default or termination occurs under the system restoration bonds, on application by or on behalf of the financing parties, a district court of Travis County, Texas, must order the sequestration and payment to those parties of revenues arising from the system restoration charges.
39. As provided by PURA § 39.310, the system restoration bonds authorized by this Financing Order are not a debt or obligation of the State of Texas and are not a charge on its full faith and credit or taxing power.
40. Under PURA § 39.310, the State of Texas has pledged for the benefit and protection of all financing parties and AEP Texas, that it will not take or permit any action that would impair the value of transition property, or, except as permitted by PURA § 39.307, reduce, alter or impair the system restoration charges to be imposed, collected, and remitted to any financing parties, until the principal, interest and premium, and any other charges incurred and contracts to be performed in connection with the system restoration bonds have been paid and performed in full. A BondCo, in issuing system restoration bonds, is authorized under PURA § 39.310 and this Financing Order to include this pledge in any documentation relating to the system restoration bonds.
41. As provided in PURA § 39.311, transactions involving the transfer and ownership of the transition property and the receipt of system restoration charges are exempt from state and local income, sales, franchise, gross receipts, and other taxes or similar charges.

Docket No. 49308

Financing Order

Page 66 of 86

42. This Financing Order will remain in full force and effect and unabated notwithstanding the bankruptcy of AEP Texas, its successors, or assignees.
43. AEP Texas retains sole discretion regarding whether or when to assign, sell, or otherwise transfer the rights and interests created by this Financing Order or any interest therein, or to cause the issuance of any system restoration bonds authorized by this Financing Order, subject to the right of the Commission, acting through its designated representative to participate in the structuring, pricing, and marketing of the system restoration bonds, and the Commission's authority through the issuance advice letter process to find that the proposed issuance does not comply with the requirements of PURA and this Financing Order.
44. This Financing Order is final, is not subject to rehearing by this Commission, and is not subject to review or appeal, except as expressly provided in PURA §§ 36.405(g) and 39.303(f). The finality of this Financing Order is not impaired in any manner by the participation of the Commission through its designated representative in any decisions related to issuance of the system restoration bonds or by the Commission's review of or issuance of an order related to the issuance advice letter required to be filed with the Commission by this Financing Order.
45. This Financing Order meets the requirements for a financing order under chapter 36, subchapter I and chapter 39, subchapter G of PURA.
46. The true-up mechanism, and all other obligations of the State of Texas and the Commission set forth in this Financing Order, are direct, explicit, irrevocable, and unconditional upon issuance of the system restoration bonds and are legally enforceable against the State of Texas and the Commission in accordance with Texas law.
47. The requirements for informal disposition under 16 TAC § 22.35 have been met in this proceeding except for 16 TAC § 22.35(b)(2), which requires that the proposed order to be served on all parties no less than 20 days before the Commission is scheduled to consider the application in an open meeting. Under 16 TAC § 22.5(b), good cause exists to waive the requirements of 16 TAC § 22.35(b)(2).

V. Ordering Paragraphs

In accordance with these findings of fact and conclusions of law, the Commission issues the following orders:

A. Approval

1. **Approval of Application.** The application of AEP Texas for the issuance of a financing order under PURA §§ 36.403 and 39.303 is approved, as provided in this Financing Order.
2. **Authority to Securitize.** AEP Texas is authorized in accordance with this Financing Order to securitize and to cause the issuance of system restoration bonds with a principal amount equal to the sum of (a) the Securitizable Balance at the time the system restoration bonds are issued plus (b) up-front qualified costs not to exceed \$3,650,241 plus (i) the cost of original issue discount, credit enhancements and other arrangements to enhance marketability as discussed in ordering paragraphs 6 and 23, (ii) rating agency fees, (iii) United States Securities and Exchange Commission registration fees, (iv) the cost of the Commission's financial advisor and its legal counsel, if any, and any additional costs incurred by AEP Texas to comply with the requests and recommendations of the Commission's financial advisor, and (v) any costs incurred by AEP Texas if this Financing Order is appealed; however, no component of the capped up-front qualified costs will be subject to an individual cap. The securitizable balance as of any given date is equal to the balance of distribution-related system restoration costs as determined in Docket No. 48577 plus carrying costs accruing on that balance at 7.4992% through the date the system restoration bonds are issued and minus all insurance proceeds, government grants and other sources of funding that compensate AEP Texas for the distribution-related system restoration costs received by AEP Texas at the time of the application for this Financing Order, and a further offset utilizing certain prescribed excess unprotected ADFIT, all as determined in Docket No. 48577. If the actual up-front qualified costs are less than the up-front qualified costs included in the principal amount securitized, the periodic billing requirement for the first annual true-up adjustment must be reduced by the amount of such unused funds (together with interest, if any, earned from the investment of such funds). If the final up-front qualified costs are more than the up-front qualified costs included in the principal amount securitized, AEP Texas may request recovery of the remaining up-front qualified costs through a surcharge to AEP Texas's rates for service at distribution voltage;

provided, however, AEP Texas may not request recovery of amounts that would cause the aggregate recoverable amounts for capped costs to exceed the cap on up-front qualified costs set forth in this Financing Order.

3. **Accumulated Deferred Federal Income Tax Benefit.** AEP Texas must calculate and place into effect, contemporaneous with the implementation of system restoration charges, the ADFIT-credit rider as described in finding of fact numbers 18 through 21. The ADFIT-credit rider must be subject to adjustment, as necessary, to accurately reflect the amount of ADFIT benefit available over the period of the rider's existence, through a filing submitted by AEP Texas at the same time it submits its periodic system restoration charge true-up adjustment filings. Implementation and adjustment of the ADFIT credit rider must use the same allocation factors and billing determinants as the system restoration charge implementation and true-up adjustment filings. The ADFIT benefits associated with such system restoration costs must not be applied to reduce the securitizable balance, nor must the ADFIT balance associated with such system restoration costs be used to reduce rate base in future proceedings. The ADFIT-credit rider and obligation to provide the ADFIT credit must not be transferred to the special purpose entity being created to issue the bonds, must not be or become transition property as defined in PURA § 39.302(8), but must be and remain a separate unsecuritized rate credit of AEP Texas.
4. **Recovery of System Restoration Charges.** AEP Texas must impose on, and the servicer must collect from, REPs serving all existing and future retail customers located within AEP Texas's central division service area as it exists on the date of this Financing Order and other entities which, under the terms of this order or the tariffs approved hereby, are required to bill, pay, or collect system restoration charges, as provided in this Financing Order, system restoration charges in an amount sufficient to provide for the timely recovery of its aggregate qualified costs detailed in this Financing Order (including payment of principal and interest on the system restoration bonds). REPs and other entities responsible for collecting system restoration charges from retail customers under this Financing Order must pay the system restoration charges billed to them whether or not they collect the system restoration charges from their retail customers.

5. **Provision of Information.** AEP Texas must take all necessary steps to ensure that the Commission or its designated representative is provided sufficient and timely information to allow the Commission or its designated representative to fully participate in and exercise its decision making authority over the proposed securitization as provided in this Financing Order.

6. **Issuance Advice Letter.** For each series of system restoration bonds issued, AEP Texas must submit a draft issuance advice letter to the Commission Staff for review not later than two weeks before the expected date of commencement of marketing the system restoration bonds. With the approval of the Commission's designated representative, the actual date of the commencement of marketing may be a date other than the expected date. Within one week after receipt of the draft issuance advice letter, Commission Staff must provide AEP Texas comments and recommendations regarding the adequacy of the information provided. Not later than the end of the first business day after the pricing of the system restoration bonds and before issuance of the system restoration bonds, AEP Texas, in consultation with the Commission acting through its designated representative, must file with the Commission an issuance advice letter in substantially the form of the issuance advice letter attached as appendix A to this Financing Order. As part of the issuance advice letter, AEP Texas, through an officer of AEP Texas, must provide a certification worded precisely as the statement in the form of issuance advice letter approved by the Commission. The issuance advice letter must be completed, must evidence the actual dollar amount of the initial system restoration charges and other information specific to the system restoration bonds to be issued, and must certify to the Commission that the structure and pricing of that series results in the lowest system restoration charges consistent with market conditions at the time that the system restoration bonds are priced and with the terms set out in this Financing Order. In addition, if original issue discount, additional credit enhancements, or arrangements to enhance marketability are used, the issuance advice letter must include certification that the original issue discount, additional credit enhancements, or other arrangements are reasonably expected to provide benefits as required by this Financing Order. All amounts which require computation must be computed using the mathematical formulas contained in the form of the issuance advice letter in appendix A to this Financing Order and schedule SRC approved in this Financing

Order. Electronic spreadsheets with the formulas supporting the schedules contained in the issuance advice letter must be included with such letter. The Commission's review of the issuance advice letter must be limited to the arithmetic accuracy of the calculations and to compliance with PURA, this Financing Order, and the specific requirements that are contained in the issuance advice letter. The initial system restoration charges and the final terms of the system restoration bonds set forth in the issuance advice letter must become effective on the date of issuance of the system restoration bonds (which must not occur before the fifth business day after pricing) unless before noon on the fourth business day after pricing the Commission issues an order finding that the proposed issuance does not comply with the requirements set forth above in this ordering paragraph.

7. **Approval of Tariff.** The form of schedule SRC and rider SRC attached as appendix B to this order is approved. Before the issuance of any system restoration bonds under this Financing Order, AEP Texas must file a tariff that conforms to the form of the schedule SRC and rider SRC tariff provisions attached to this Financing Order.

B. System Restoration Charges

8. **Imposition and Collection.** AEP Texas is authorized to impose on, and the servicer is authorized to collect from, REPs serving all existing and future retail customers located within AEP Texas's central division service area as it existed on the date this Financing Order is issued and other entities which, under the terms of this Financing Order or the tariffs approved hereby, are required to bill, pay, or collect system restoration charges, system restoration charges in an amount sufficient to provide for the timely recovery of the aggregate periodic payment requirements (including payment of principal and interest on the system restoration bonds), as approved in this Financing Order. If there is a shortfall in payment of an amount billed, the amount paid must first be apportioned ratably between the system restoration charges and other fees and charges (including transition charges attributable to the transition bonds issued by AEP Texas Central Transition Funding II LLC in October 2006 in accordance with the financing order in Docket No. 32475, and the transition bonds issued by AEP Texas Central Transition Funding III LLC in March 2012 in accordance with the financing order in Docket No. 39931 and future transition charges or system restoration charges associated with transition bonds or system restoration bonds

issued under future financing orders), other than late fees, and second, any remaining portion of the payment must be allocated to late fees.

9. **BondCo's Rights and Remedies.** Upon the transfer by AEP Texas of the transition property to a BondCo, the BondCo must have all of the rights, title, and interest of AEP Texas with respect to such transition property, including, without limitation, the right to exercise any and all rights and remedies with respect thereto, including the right to authorize disconnection of electric service and to assess and collect any amounts payable by any retail customer in respect of the transition property. If system restoration bonds are issued in more than one series, then the transition property transferred as a result of each issuance must be only those rights associated with that portion of the total amount authorized to be securitized under this Financing Order, which is securitized by such issuance. The rights to impose, collect, and receive system restoration charges along with the other rights arising under this Financing Order as they relate to any portion of the total amount authorized to be securitized that remains unsecuritized must remain with AEP Texas and must not become transition property until transferred to a BondCo in connection with a subsequent issuance of system restoration bonds.
10. **Collector of System Restoration Charges.** AEP Texas or any subsequent servicer of the system restoration bonds must bill a customer's REP or other entity, which, under the terms of this Financing Order or the tariffs approved hereby, is required to bill or collect system restoration charges for the system restoration charges attributable to that customer. REPs and other entities responsible for collecting system restoration charges from retail customers under this Financing Order must pay the system restoration charges billed to them less the charge off allowance as provided in finding of fact number 55(j) whether or not they collect the system restoration charges from their retail customers.
11. **Collection Period.** The system restoration charges related to a series of system restoration bonds must be designed to be collected over the scheduled life of the system restoration bonds, which may not exceed 14 years. However, to the extent that any amounts are not recovered at the end of this period, AEP Texas may continue to recover them over a period ending not more than 15 years from the date of issuance of that series of system restoration bonds. Amounts remaining unpaid after this 15-year period may be recovered but only to

the extent that the charges are attributable to system restoration charges allocable to the 15-year period.

12. **Allocation.** AEP Texas must allocate the system restoration charges among customer classes in the manner described in this Financing Order.
13. **Nonbypassability.** AEP Texas and any other entity providing electric distribution services and any REP providing services to any retail customer within AEP Texas's certificated service area as it existed on the date this Financing Order is issued are entitled to collect and must remit, in accordance with this Financing Order, the system restoration charges from such retail customers, including certain customers in a multiply-certificated service area that switch services providers as described in finding of fact number 73 and certain retail customers that switch to certain new on-site generation as described in finding of fact number 74. The Commission will ensure that such obligations are undertaken and performed by AEP Texas, any other entity providing electric distribution services within AEP Texas's certificated service area as it exists on the date this Financing Order is issued, and any REP providing services to any retail customer within such certificated service area.
14. **True-Ups.** True-ups of the system restoration charges, including non-standard true-ups, must be undertaken and conducted as described in schedule SRC. The servicer must file the true-up adjustments in a compliance docket and must give notice of the filing to all parties in this docket. If system restoration bonds are issued in more than one series, then each series will be subject to separate true-up adjustments under PURA and this Financing Order, provided, however, that more than one series may be trued-up in a single proceeding.
15. **Ownership Notification.** Any entity that bills system restoration charges to retail customers must, at least annually, provide written notification to each retail customer for which the entity bills system restoration charges that the system restoration charges are the property of BondCo and not of the entity issuing such bill.

C. System Restoration Bonds

16. **Issuance.** AEP Texas is authorized through one or more BondCos to issue one or more series of system restoration bonds as specified in this Financing Order. The ongoing qualified costs described in appendix C may be recovered directly through the system

restoration charges. The system restoration bonds must be denominated in United States Dollars.

17. **Up-Front Qualified Costs.** AEP Texas may securitize up-front qualified costs in accordance with the terms of this Financing Order, which provides that the total amount for up-front qualified cost must not exceed \$3,650,241 plus (i) the cost of original issue discount, credit enhancements and other arrangements to enhance marketability as discussed in ordering paragraphs 6 and 23, (ii) rating agency fees, (iii) United States Securities and Exchange Commission registration fees, (iv) the cost of the Commission's financial advisor and its legal counsel, if any, and any additional costs incurred by AEP Texas to comply with the requests and recommendations of the Commission's financial advisor, and (v) any costs incurred by AEP Texas if this Financing Order is appealed. No individual cap will apply to any component of up-front qualified costs included in the \$3,650,241 described above.
18. **Ongoing Qualified Costs.** AEP Texas may recover its actual ongoing qualified costs through its system restoration charges, subject to the caps on the servicing fees and administrative fees (which are applicable as long as AEP Texas serves as servicer or administrator, as applicable) set forth in finding of fact number 23 and appendix C to this Financing Order. Ongoing qualified costs other than the servicing and administrative fees of AEP Texas as servicer and administrator are not capped by this Financing Order. Ongoing qualified costs also include an annual return at the authorized pre-tax return on equity determined in AEP Texas's most recent base-rate case on the amount, if any, of invested capital in excess of 0.5% of the principal amount of each series of bonds as discussed in finding of fact number 63. The amount of ongoing qualified costs is subject to updating in the issuance advice letter to reflect a change in the size of the system restoration bond issuance and any decision to issue the bonds in more than one series and other information available at the time of submission of the issuance advice letter. As provided in ordering paragraph 32, a servicer, other than AEP Texas, may collect a servicing fee higher than that set forth in appendix C to this Financing Order, if such higher fee is approved by the Commission and the indenture trustee.

19. **Refinancing.** AEP Texas or any assignee may apply for one or more new financing orders under PURA § 39.303(g).
20. **Collateral.** All transition property and other collateral must be held and administered by the indenture trustee under the indenture as described in AEP Texas's application. BondCo must establish a collection account with the indenture trustee as described in finding of fact numbers 60 through 65. Upon payment of the principal amount of all system restoration bonds authorized in this Financing Order and the discharge of all obligations in respect thereof, all amounts in the collection account, including investment earnings, other than amounts in the capital subaccount, must be released by the indenture trustee to BondCo for distribution in accordance with ordering paragraph 21. AEP Texas must notify the Commission within 30 days after the date that these funds are eligible to be released of the amount of such funds available for crediting to the benefit of ratepayers.
21. **Distribution Following Repayment.** Following repayment of the system restoration bonds authorized in this Financing Order and release of the funds held by the trustee, the servicer, on behalf of BondCo, must distribute to REPs and other entities responsible for collection of system restoration charges from retail customers, the final balance of the general, excess funds, and all other subaccounts (except the capital subaccount), whether such balance is attributable to principal amounts deposited in such subaccounts or to interest thereon, remaining after all other qualified costs have been paid. The amounts must be distributed to each REP and other entity that paid schedule SRC system restoration charges during the last 12 months that the schedule SRC system restoration charges were in effect. BondCo or its successor in interest to the transition property must, to the extent the capital subaccount is not depleted below its original amount, also distribute to REPs and other entities responsible for collection of system restoration charges from retail ratepayers any subsequently collected system restoration charges. The amount paid to each REP or other entity must be determined by multiplying the total amount available for distribution by a fraction, the numerator of which is the total schedule SRC system restoration charges paid by the REP or other entity during the last 12 months schedule SRC charges were in effect and the denominator of which is the total schedule SRC system restoration charges paid by all REPs and other entities responsible for collection of system

restoration charges from retail customers during the last 12 months the schedule SRC system restoration charges were in effect.

22. **Funding of Capital Subaccount.** The capital contribution by AEP Texas to be deposited into the capital subaccount must, with respect to each BondCo and series of system restoration bonds, be funded by AEP Texas and not from the proceeds of the sale of system restoration bonds. Upon payment of the principal amount of all system restoration bonds and the discharge of all obligations in respect thereof, all amounts in the capital subaccount, including investment earnings, and any amounts required to replenish the capital subaccount to the level of AEP Texas's capital contribution, and any unpaid authorized return on capital contributions in excess of 0.5% of the original principal amount of the system restoration bonds, if any, for a series of system restoration bonds must be released to BondCo for payment to AEP Texas. Investment earnings in this subaccount and authorized return on capital contributions in excess of 0.5% of the original principal amount of the system restoration bonds, if any, may be released earlier in accordance with the indenture.
23. **Original Issue Discount, Credit Enhancement.** AEP Texas may provide original issue discount or provide for various forms of credit enhancement, including letters of credit, an overcollateralization subaccount or other reserve accounts, surety bonds, and other mechanisms designed to promote the credit quality or marketability of the system restoration bonds to the extent not prohibited by this Financing Order. The decision to use such arrangements to enhance credit or promote marketability must be made in conjunction with the Commission acting through its designated representative. AEP Texas may not enter into an interest rate swap, currency hedge, or interest rate hedging arrangement. AEP Texas may include the costs of original issue discount, credit enhancements or other arrangements to promote credit quality or marketability as qualified costs only if AEP Texas certifies that such arrangements are reasonably expected to provide benefits greater than their cost and such certifications are agreed with by the Commission's designated representative. AEP Texas must not be required to enter any arrangements to promote credit quality or marketability unless all related costs and liabilities can be included in qualified costs. AEP Texas and the Commission's designated representative must evaluate

the relative benefits of the arrangements in the same way that benefits are quantified under the quantifiable benefits test. This ordering paragraph does not apply to the collection account or its subaccounts approved in this Financing Order.

24. **Annual Weighted-Average Interest Rate of Bonds.** The effective weighted-average interest rate of the system restoration bonds, excluding up-front and ongoing costs, must not exceed 6.00%.
25. **Life of Bonds.** The scheduled final payment of the system restoration bonds authorized by this Financing Order must not exceed 14 years.
26. **Amortization Schedule.** The system restoration bonds must be structured to provide a system restoration charge that is based on substantially levelized annual revenue requirements over the expected life of the system restoration bonds and utilize consistent allocation factors across rate classes, subject to modification in accordance with the true-up mechanisms adopted in this Financing Order. The structure employing substantially levelized annual revenue requirements will allow the resulting system restoration charges to remain level or decline over time, if billing determinants remain level or grow. If the system restoration bonds are issued in more than one series, each series must meet the requirement of substantially levelized annual revenue requirements.
27. **Commission Participation in Bond Issuance.** The Commission, acting through its designated representative, must participate directly with AEP Texas in negotiations regarding the structuring, pricing, and marketing, and must have equal rights with AEP Texas to approve or disapprove the proposed structuring, pricing, and marketing of the system restoration bonds. The Commission's designated representative must have the right to participate fully and in advance regarding all aspects of the structuring, pricing, and marketing of the system restoration bonds (and all parties must be notified of the designated representative's role), and must be provided timely information that is necessary to fulfill its obligation to the Commission. The Commission directs its designated representative to advise the Commission of any proposal that does not comply in any material respect with the criteria established in this Financing Order and to promptly inform AEP Texas and the Commission of any items that, in the designated representative's opinion, are not reasonable. Although this Financing Order is written in the context of an underwritten

offering, nothing herein must be construed to preclude issuance of the system restoration bonds through a competitive bid offering or private placement if AEP Texas and the Commission's designated representative agree that AEP Texas should do so. The Commission's designated representative must notify AEP Texas and the Commission no later than 12:00 p.m. central standard time on the business day after the Commission's receipt of the issuance advice letter for each series of system restoration bonds whether the structuring, marketing, and pricing of that series of system restoration bonds comply with the criteria established in this Financing Order.

28. **Use of BondCo.** AEP Texas must use BondCo, a special purpose transition funding entity as proposed in its application, in conjunction with the issuance of a series of system restoration bonds authorized under this Financing Order. BondCo must be funded with an amount of capital that is sufficient for BondCo to carry out its intended functions and to avoid the possibility that AEP Texas would have to extend funds to BondCo in a manner that could jeopardize the bankruptcy remoteness of BondCo. AEP Texas may create more than one BondCo in which event, the rights, structure, and restrictions described in this Financing Order with respect to BondCo would be applicable to each purchaser of transition property to the extent of the transition property sold to it and the system restoration bonds issued by it.

D. Servicing

29. **Servicing Agreement.** The Commission authorizes AEP Texas to enter into the servicing agreement with BondCo and to perform the servicing duties approved in this Financing Order. Without limiting the foregoing, in its capacity as initial servicer of the transition property, AEP Texas is authorized to calculate, bill and collect for the account of BondCo, the system restoration charges initially authorized in this Financing Order, as adjusted from time to time to meet the periodic payment requirements as provided in this Financing Order; and to make such filings and take such other actions as are required or permitted by this Financing Order in connection with the periodic true-ups described in this Financing Order. The servicer must be entitled to collect servicing fees in accordance with the provisions of the servicing agreement, provided that, as set forth in appendix C, the annual servicing fee payable to AEP Texas while it is serving as servicer (or to any other servicer affiliated with AEP Texas) must not at any time exceed 0.10% of the original principal

amount of the system restoration bonds. The annual servicing fee payable to any other servicer not affiliated with AEP Texas must not at any time exceed 0.6% of the original principal amount of the system restoration bonds unless such higher rate is approved by the Commission under ordering paragraph 32. The servicing agreement must contain a recital clause that the Commission, or its attorney, will enforce the servicing agreement for the benefit of Texas ratepayers to the extent permitted by law. The servicing agreement must also include a provision that AEP Texas must indemnify the Commission (for the benefit of retail customers) in connection with any increase in servicing fees that become payable as a result of a default resulting from AEP Texas's willful misconduct, bad faith, or negligence in performance of its duties or observance of its covenants under the servicing agreement. The indemnity will be enforced by the Commission but will not be enforceable by any REP or retail customer.

30. **Administration Agreement.** The Commission authorizes AEP Texas to enter into an administration agreement with each BondCo to provide the services covered by the administration agreements in AEP Texas's prior securitization transactions. The fee charged by AEP Texas as administrator under that agreement must not exceed \$100,000 per annum per BondCo plus reimbursable third party costs.
31. **Servicing and Administration Agreement Revenues.** The servicing and administrative fees collected by AEP Texas, or any affiliate of AEP Texas, acting as either the servicer or the administrator under the servicing agreement or administration agreement, must be included as a revenue credit and reduce revenue requirements in each AEP Texas base-rate case. The expenses incurred by AEP Texas or such affiliate to perform obligations under the servicing agreement and the administration agreement must likewise be included as a cost of service in each AEP Texas base-rate case.
32. **Replacement of AEP Texas as Servicer.** Upon the occurrence of an event of default under the servicing agreement relating to servicer's performance of its servicing functions with respect to the system restoration charges, the financing parties may replace AEP Texas as the servicer in accordance with the terms of the servicing agreement. If the servicing fee of the replacement servicer will exceed the applicable maximum servicing fee specified in ordering paragraph 29, the replacement servicer must not begin providing service until

(i) the date the Commission approves the appointment of such replacement servicer or (ii) if the Commission does not act to either approve or disapprove the appointment, the date which is 45 days after notice of appointment of the replacement servicer is provided to the Commission. No entity may replace AEP Texas as the servicer in any of its servicing functions with respect to the system restoration charges and the transition property authorized by this Financing Order, if the replacement would cause any of the then current credit ratings of the system restoration bonds to be suspended, withdrawn, or downgraded.

33. **Amendment of Agreements.** The parties to the servicing agreement, administration agreement, indenture, and transition property purchase and sale agreement may amend the terms of such agreements; provided, however, that no amendment to any such agreement must increase the ongoing qualified costs without the approval of the Commission. Any amendment that does not increase the ongoing qualified costs must be effective without prior Commission authorization. Any amendment to any such agreement that may have the effect of increasing ongoing qualified costs must be provided by BondCo to the Commission along with a statement as to the possible effect of the amendment on the ongoing qualified costs. The amendment must become effective on the later of (i) the date proposed by the parties to the amendment or (ii) 31 days after such submission to the Commission unless the Commission issues an order disapproving the amendment within a 30-day period.
34. **Collection Terms.** The servicer must remit collections of the system restoration charges to BondCo or the indenture trustee for BondCo's account in accordance with the terms of the servicing agreement.
35. **Contract to Provide Service.** To the extent that any interest in the transition property created by this Financing Order is assigned, sold or transferred to an assignee, AEP Texas must enter into a contract with that assignee that requires AEP Texas to continue to operate its transmission and distribution system to provide electric services to AEP Texas's customers; provided, however, that this provision must not prohibit AEP Texas from selling, assigning, or otherwise divesting its transmission and distribution systems or any part thereof so long as the entities acquiring such system agree to continue operating the facilities to provide electric service to AEP Texas's customers.

36. **SEC Requirements.** Each REP or other entity responsible for collecting system restoration charges from retail customers must furnish to BondCo or AEP Texas or to any successor servicer information and documents necessary to enable BondCo or AEP Texas or any successor servicer to comply with their respective disclosure and reporting requirements, if any, with respect to the system restoration bonds under federal securities laws.

E. Retail Electric Providers

37. **REP Billing and Credit Standards.** The Commission approves the REP standards detailed in finding of fact number 55. These proposed REP standards relate only to the billing and collection of system restoration charges authorized under this Financing Order, and do not apply to collection of any other nonbypassable charges or other charges. The standards apply to all REPs other than REPs that have contracted with AEP Texas to have AEP Texas bill and collect system restoration charges from retail customers. REPs may contract with parties other than AEP Texas to bill and collect system restoration charges from retail customers, but such REPs must remain subject to these standards. Upon adoption of any amendment to the rules governing REP standards as set out in 16 TAC § 25.108, the Commission Staff must initiate a proceeding to investigate the need to modify the standards adopted in this Financing Order to conform to that rule and to address whether each of the rating agencies that have rated the system restoration bonds will determine that such modifications will not cause a suspension, withdrawal, or downgrade of the ratings on the system restoration bonds. Modifications to the REP standards adopted in this Financing Order may not be implemented absent prior written confirmation (or deemed inapplicability of such confirmation requirement) from each of the rating agencies that have rated the system restoration bonds that such modifications will not cause a suspension, withdrawal, or downgrade of the ratings on the system restoration bonds. The servicer of the system restoration bonds must also comply with the provisions of the REP standards adopted by this Financing Order that are applicable to the servicer.
38. **System Restoration Charge Remittance Procedures.** System restoration charges must be billed and collected in accordance with the REP standards adopted by this Financing Order. REPs must be subject to penalties as provided in these standards. A REP must not

be obligated to pay the overdue system restoration charges of another REP whose customers it agrees to serve.

39. **Remedies Upon REP Default.** A servicer of system restoration bonds must have the remedies provided in the REP standards adopted by this Financing Order. If a REP that is in default fails to immediately select and implement one of the options provided in the REP standards or, after making its selection, fails to adequately meet its responsibilities under the selected option, then, subject to the limitations and requirements of the bankruptcy code if the REP is a debtor in bankruptcy, the servicer must immediately cause the POLR or a qualified REP to assume the responsibility for the billing and collection of system restoration charges in the manner and for the time provided in the REP standards.
40. **Billing by POLRs.** Every POLR appointed by the Commission must comply with the minimum credit rating or the deposit or credit support requirements described in the REP standards in addition to any other standard that may be adopted by the Commission. If the POLR defaults or is not eligible to provide billing and collection services, the servicer must immediately assume responsibility for billing and collection of system restoration charges and continue to meet this obligation until a new POLR can be named by the Commission or the customer requests the services of a qualified REP. Retail customers must never be directly re-billed by the successor REP, the POLR, or the servicer for any amount of system restoration charges the retail customers have previously paid to their REP.
41. **Disputes.** Disputes between a REP and a servicer regarding any amount of billed system restoration charges must be resolved in the manner provided by the REP standards adopted by this Financing Order.
42. **Metering Data.** If the servicer is providing metering services to a REP's retail customers, then metering data must be provided to the REP at the same time as the billing. If the servicer is not providing metering services, the entity providing metering services must comply with Commission rules and ensure that the servicer and the REP receive timely and accurate metering data in order for the servicer to meet its obligations under the servicing agreement and this Financing Order.
43. **Charge-Off Allowance.** The REP may retain an allowance for charge-offs from its payments to the servicer as provided in the REP standards adopted by this Financing Order.

44. **Service Termination.** In the event that the servicer is billing retail customers for system restoration charges, the servicer must have the right to terminate transmission and distribution service to the end-use customer for non-payment by the end-use customer under applicable Commission rules. In the event that a REP or the POLR is billing retail customers for system restoration charges, the REP or POLR must have the right to transfer the customer to the POLR or to another certified REP or to direct the servicer to terminate transmission and distribution service to the end-use customer for non-payment by the end-use customer to the extent permitted by and in accordance with terms and limitations of the applicable Commission rules.

F. Structure of the Securitization

45. **Structure.** AEP Texas must structure the securitization as proposed in AEP Texas's application. This structure must be in accordance with findings of fact 95 through 98.

G. Use of Proceeds

46. **Use of Proceeds.** Upon the issuance of system restoration bonds, BondCo must pay the net proceeds from the sale of the system restoration bonds (after payment of transaction costs) to AEP Texas for the purchase price of the transition property. AEP Texas will apply these net proceeds to reduce recoverable system restoration costs. Thereafter, bond proceeds will be used to repay any outstanding short-term debt at AEP Texas and to fund capital expenditures to support utility operations and services.

H. Miscellaneous Provisions

47. **Continuing Issuance Right.** AEP Texas has the continuing irrevocable right to cause the issuance of system restoration bonds in one or more series in accordance with this Financing Order for a period commencing with the date of this Financing Order and extending 24 months following the later of (i) the date on which this Financing Order becomes final and no longer subject to any appeal; or (ii) the date on which any other regulatory approvals necessary to issue the system restoration bonds are obtained and no longer subject to any appeal. If, at any time during the effective period of this Financing Order, there is a severe disruption in the financial markets of the United States, the effective period must automatically be extended to a date which is not less than 90 days after the date such disruption ends.

48. **Internal Revenue Service Private Letter or Other Rulings.** AEP Texas is not required by this Financing Order to obtain a ruling from the Internal Revenue Service (IRS); however, if it elects to do so, then upon receipt, AEP Texas must promptly deliver to the Commission a copy of each private letter or other ruling issued by the IRS with respect to the proposed transaction, the system restoration bonds or any other matter related thereto. AEP Texas must also include a copy of every such ruling by the IRS it has received as an attachment to each issuance advice letter required to be filed by this Financing Order. AEP Texas may cause system restoration bonds to be issued without a private letter ruling if it obtains an opinion of tax counsel sufficient to support the issuance of the bonds.
49. **Binding on Successors.** This Financing Order, together with the system restoration charges authorized in it, must be binding on AEP Texas and any successor to AEP Texas that provides transmission and distribution service directly to retail customers in AEP Texas's certificated service area as it existed on the date of this Financing Order, any other entity that provides transmission or distribution services to retail customers within that service area, and any successor to such other entity. This Financing Order is also binding on each REP, and any successor, that sells electric energy to retail customers located within that service area, any other entity responsible for billing and collecting system restoration charges on behalf of BondCo, and any successor to the Commission. In this paragraph, a successor means any entity that succeeds by any means whatsoever to any interest or obligation of its predecessor, including by way of bankruptcy, reorganization or other insolvency proceeding, merger, consolidation, conversion, assignment, pledge or other security, by operation of law or otherwise.
50. **Flexibility.** Subject to compliance with the requirements of this Financing Order, AEP Texas and BondCo must be afforded flexibility in establishing the terms and conditions of the system restoration bonds, including the final structure of BondCo, repayment schedules, term, payment dates, collateral, credit enhancement, required debt service, reserves, interest rates, use of original issue discount, and other financing costs and the ability of AEP Texas, at its option, to cause one or more series of system restoration bonds to be issued.

51. **Effectiveness of Order.** This Financing Order is effective upon issuance and is not subject to rehearing by the Commission. Notwithstanding the foregoing, no transition property is created hereunder, and AEP Texas is not authorized to impose, collect, and receive system restoration charges until AEP Texas's rights and interests under this Financing Order have been transferred to BondCo in conjunction with the issuance of the system restoration bonds.
52. **Regulatory Approvals.** All regulatory approvals within the jurisdiction of the Commission that are necessary for the securitization of the system restoration charges associated with the costs that are the subject of the application and for all related transactions contemplated in the application are granted.
53. **Payment of Commission's Costs for Professional Services.** AEP Texas must pay the costs to the Commission of acquiring professional services for the purpose of evaluating AEP Texas's proposed transaction, including, but not limited to, the Commission's outside attorneys' fees in the amounts specified in this Financing Order no later than 30 days after the issuance of any system restoration bonds.
54. **Compliance with PURA § 36.402(c).** If AEP Texas receives insurance proceeds, governmental grants, or any other source of funding not reflected in the securitizable balance to compensate it for system restoration costs or the Commission determines that the actual costs incurred are less than estimated costs, if any, included in the securitizable balance, the Commission will take such amounts into account as required by PURA § 36.402(c). Such amounts must accrue interest as provided in PURA § 36.402(e). Any adjustment to reflect such amounts may not affect the stream of revenue available to service the system restoration bonds. A REP must be required to appropriately refund or credit to its customers any reduction in rates or any credits received from the utility under this paragraph.
55. **Effect of Appeal of Docket No. 48577.** If the recoverable distribution-related system restoration costs approved in Docket No. 48577 is subject to judicial review at the time of issuance of the system restoration bonds, AEP Texas must adjust its rates, other than system restoration charges, or provide credits, other than credits to system restoration charges, in a manner that will refund over the remaining life of the system restoration bonds

any overpayments resulting from securitization of amounts in excess of the amount resulting from a final determination of the recoverable distribution-related system restoration costs. The adjustment mechanism may not affect the stream of revenue available to service the system restoration bonds. An adjustment may not be made under this paragraph until all appellate reviews, including, if applicable, appellate reviews following a Commission decision on remand of its original orders, have been completed. A REP must be required to appropriately refund or credit to its customers any reduction in rates or any credits received from the utility under this paragraph.

56. **Effect.** This Financing Order constitutes a legal financing order for AEP Texas under chapter 36, subchapter I and chapter 39, subchapter G of PURA. The Commission finds this Financing Order complies with the provisions of chapter 36, subchapter I and chapter 39, subchapter G of PURA. A financing order gives rise to rights, interests, obligations, and duties as expressed in chapter 36, subchapter I and chapter 39, subchapter G of PURA. It is the Commission's express intent to give rise to those rights, interests, obligations, and duties by issuing this Financing Order. AEP Texas and the servicer are directed to take all actions as are required to effectuate the transactions approved in this Financing Order, subject to compliance with the criteria established in this Financing Order.
57. **Further Commission Action.** The Commission guarantees that it will act under this Financing Order as expressly authorized by PURA to ensure that expected system restoration charge revenues are sufficient to pay on a timely basis scheduled principal and interest on the system restoration bonds issued under this Financing Order and other costs, including fees and expenses, in connection with the system restoration bonds.
58. **Designated Representative.** The Commission designates Mr. Darryl Tietjen to serve as its representative under this Financing Order until such time as the Commission designates a new representative. The Commission will notify AEP Texas if it designates a new representative.
59. **All Other Motions Denied.** The Commission denies all other motions and any other requests for general or specific relief that have not been expressly granted.

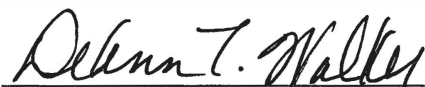
Docket No. 49308

Financing Order

Page 86 of 86

Signed at Austin, Texas the 17th day of June 2019.

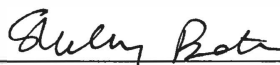
PUBLIC UTILITY COMMISSION OF TEXAS



DEANN T. WALKER, CHAIRMAN



ARTHUR C. D'ANDREA, COMMISSIONER



SHELLY BOTKIN, COMMISSIONER

Appendix A
Page 1 of 17

FORM OF ISSUANCE ADVICE LETTER

_____ day, _____, 2019

Docket No. _____

THE PUBLIC UTILITY COMMISSION OF TEXAS

SUBJECT: ISSUANCE ADVICE LETTER FOR SYSTEM RESTORATION BONDS

Pursuant to the Financing Order adopted in *Application of AEP Texas Inc. for a Financing Order*, Docket No. _____ (the "Financing Order"), AEP TEXAS INC. ("Applicant") hereby submits, no later than the end of the first business day after the pricing date of this series of System Restoration Bonds, the information referenced below. This Issuance Advice Letter is for the 2019 System Restoration Bonds, tranches A-1 thru A-____. Any capitalized terms not defined in this letter have the meanings ascribed to them in the Financing Order.

PURPOSE

This filing establishes the following:

- (a) the total amount of Qualified Costs being securitized;
- (b) confirmation of compliance with issuance standards;
- (c) the actual terms and structure of the System Restoration Bonds being issued;
- (d) the initial System Restoration Charge for retail users; and
- (e) the identification of the Special Purpose Entity (SPE).

QUALIFIED COSTS BEING SECURITIZED

The total amount of Qualified Costs being securitized (the "Securitized Qualified Costs") is presented in Attachment 1.

Appendix A
Page 2 of 17

COMPLIANCE WITH ISSUANCE STANDARDS

The Financing Order requires Applicant to confirm, using the methodology approved therein, that the actual terms of the System Restoration Bonds result in compliance with the standards set forth in the Financing Order. These standards are:

1. The securitization of Qualified Costs will provide tangible and quantifiable benefits to ratepayers, greater than would be achieved absent the issuance of the System Restoration Bonds (See Attachment 2, Schedule D);
2. The amount securitized will not exceed the present value of the conventional revenue requirement over the life of the System Restoration Bonds associated with the Securitized Qualified Costs when the present value calculation is made using a discount rate equal to the proposed interest rate on the System Restoration Bonds (See Attachment 2, Schedule D);
3. The total amount of revenues to be collected under the Financing Order is less than the revenue requirement that would be recovered using conventional financing methods (See Attachment 2, Schedule C and D);
4. The System Restoration Bonds will be issued in one or more series comprised of one or more tranches having target final payment of __ years and legal final maturities not exceeding __ years from the date of issuance of such series (See Attachment 2, Schedule A);
5. The System Restoration Bonds may be issued with an original issue discount, additional credit enhancements, or arrangements to enhance marketability provided that the Applicant certifies that the original issue discount is reasonably expected to provide benefits greater than its cost; and
6. The structuring and pricing of the System Restoration Bonds is certified by the Applicant to result in the lowest System Restoration Charges consistent with market conditions and the terms (including the amortization structure ordered by the Commission, if any) set out in the Financing Order (See Attachment 4).

Appendix A
Page 3 of 17

ACTUAL TERMS OF ISSUANCE

System Restoration Bond Series: _____
 System Restoration Bond Issuer: [BondCo]
 Trustee: _____
 Closing Date: _____, 2019
 Bond Ratings: S&P AAA, Moody's Aaa
 Amount Issued: \$ _____
 System Restoration Bond Up-Front Qualified Costs: See Attachment 1, Schedule B.
 System Restoration Bond Ongoing Qualified Costs: See Attachment 2, Schedule B.

Tranche	Coupon Rate	Expected Final Payment	Legal Final Maturity
A-1	__%	__	__
A-2	__%	__	__
A-3	__%	__	__
A-4	__%	__	__

Effective Annual Weighted Average Interest Rate of the System Restoration Bonds:	[] %
Life of Series:	__ years
Weighted Average Life of Series:	__ years
Call provisions (including premium, if any):	__
Target Amortization Schedule:	Attachment 2, Schedule A
Target Final Payment Dates:	Attachment 2, Schedule A
Legal Final Maturity Dates:	Attachment 2, Schedule A
Payments to Investors:	Semiannually Beginning __, 2019
Initial annual Servicing Fee as a percent of original System Restoration Bond principal balance:	0.10%

Appendix A
Page 4 of 17

INITIAL SYSTEM RESTORATION CHARGE

Table I below shows the current assumptions for each of the variables used in the calculation of the initial System Restoration Charges.

TABLE I	
Input Values For Initial System Restoration Charges	
Applicable period: from _____ to _____	
Forecasted retail kWh/kW sales for the applicable period:	_____
System Restoration Bond debt service for the applicable period	\$ _____
Percent of billed amounts expected to be charged-off:	_____ %
Forecasted % of Billing Paid in the Applicable Period:	_____ %
Forecasted retail kWh/kW sales billed and collected for the applicable period.	_____
Forecasted annual ongoing transaction expenses (Excluding System Restoration Bond principal and interest):	\$ _____
Initial System Restoration Bond outstanding balance:	\$ _____
Target System Restoration Bond outstanding balance as of: ___/___/___:	\$ _____
Total Periodic Billing Requirement for applicable period:	\$ _____

Allocation of the PBR among customer classes: See Attachment 3.

Appendix A
Page 5 of 17

Based on the foregoing, the initial System Restoration Charges calculated for retail users are as follows:

TABLE II	
<u>Rate Class</u>	<u>Initial System Restoration Charge</u>
Residential	\$ ___/kWh
Secondary Service Less Than or Equal to 10 kW	\$ ___/kWh
Secondary Service Greater Than 10 kW	\$ ___/Distribution Billing kW
Primary Service	\$ ___/Distribution Billing kW
Lighting Service	\$/kWh

IDENTIFICATION OF SPE

The owner of the Transition Property will be: _____ [BondCo].

EFFECTIVE DATE

In accordance with the Financing Order, the System Restoration Charge shall be automatically effective upon the Applicant's receipt of payment in the amount of \$_____ from [BondCo], following Applicant's execution and delivery to [BondCo] of the Bill of Sale transferring Applicant's rights and interests under the Financing Order and other rights and interests that will become Transition Property upon transfer to [BondCo] as described in the Financing Order.

Appendix A
Page 6 of 17

NOTICE

Copies of this filing are being furnished to the parties on the attached service list. Notice to the public is hereby given by filing and keeping this filing open for public inspection at Applicant's corporate headquarters.

AUTHORIZED OFFICER

The undersigned is an officer of Applicant and authorized to deliver this Issuance Advice Letter on behalf of Applicant.

Respectfully submitted,

AEP TEXAS INC.

By: _____
Name: _____
Title: _____

Appendix A
Page 7 of 17

ATTACHMENT 1
SCHEDULE A
CALCULATION OF SECURITIZED QUALIFIED COSTS

Securitized Balance to be securitized:	\$ _____
Up-front Qualified Costs	\$ _____
TOTAL SECURITIZED QUALIFIED COSTS	\$ _____

Appendix A
Page 8 of 17

ATTACHMENT 1
SCHEDULE B
ESTIMATED UP-FRONT QUALIFIED COSTS

CAPPED UP-FRONT QUALIFIED COSTS	
	\$ _____
Legal Fees (Company, Issuer, and Underwriter)	\$ _____
Accountant's Fees	\$ _____
Trustee's/Trustee Counsel's Fees and Expenses	\$ _____
Servicer's Set-up Costs	\$ _____
Printing/Edgarizing	\$ _____
Company Advisor's Fee	\$ _____
SPE Setup Costs	\$ _____
Securitization Proceeding Expenses	\$ _____
Miscellaneous Administrative Costs	\$ _____
Underwriters' Fees	\$ _____
Subtotal Capped Up-Front Qualified Costs	\$ _____
UNCAPPED UP-FRONT QUALIFIED COSTS	
Commission's Financial Advisor Fees	
Legal Fees for Counsel to the Commission's Advisor, if any	
Rating Agency Fees	\$ _____
SEC Registration Fee	\$ _____
Original Issue Discount	\$ _____
Cost of Other Credit Enhancements	\$ _____
Rounding/Contingency	\$ _____
TOTAL UP-FRONT QUALIFIED COSTS SECURITIZED	\$ _____

Note: Certain costs are subject to an aggregate cap set forth in the Financing Order. Differences that result from the Estimated Up-front Qualified Costs securitized being more than the actual up-front costs incurred will be resolved through the true-up process described in the Financing Order. Differences that result from the Estimated Up-front Qualified Costs securitized being less than the actual up-front costs incurred may be resolved in a future proceeding as described in the Financing

Appendix A
Page 9 of 17

Order, provided that the total amount of capped costs may not be recovered in excess of the aggregate cap.

Appendix A
Page 11 of 17

ATTACHMENT 2
SCHEDULE B
ONGOING QUALIFIED COSTS

	ANNUAL AMOUNT
Servicing Fee (AEP Texas as Servicer) (0.10% of initial System Restoration Bond principal amount)	\$ _____
Administration Fee	\$ _____
Accountant's Fee	\$ _____
Legal Fees/Expenses for Company's/Issuer's Counsel	\$ _____
Trustee's/Trustee's Counsel Fees and Expenses	\$ _____
Independent Manager's Fees	\$ _____
Rating Agency Fees	\$ _____
Printing/Edgarizing Fees	\$ _____
Miscellaneous	
TOTAL ONGOING QUALIFIED COSTS (with AEP Texas as Servicer)	\$ _____
Ongoing Servicers Fee (Third Party as Servicer) (0.60% of principal amount)	\$ _____
TOTAL ONGOING QUALIFIED COSTS (Third Party as Servicer)	\$ _____

Note: Certain of the Ongoing Qualified Costs are subject to caps set forth in the Financing Order. The amounts shown for each category of operating expense on this attachments are the expected expenses for the first year of the System Restoration Bonds. System Restoration Charges will be adjusted at least annually to reflect any changes in Ongoing Qualified Costs through the true-up process described in the Financing Order.

Appendix A
Page 12 of 17

ATTACHMENT 2
SCHEDULE C
CALCULATION OF SYSTEM RESTORATION CHARGES

Year	System Restoration Bond Payments¹	Ongoing Costs²	Total Nominal System Restoration Charge Requirement³	Present Value of System Restoration Charges⁴
1	\$ _____	\$ _____	\$ _____	\$ _____
2	\$ _____	\$ _____	\$ _____	\$ _____
3	\$ _____	\$ _____	\$ _____	\$ _____
4	\$ _____	\$ _____	\$ _____	\$ _____
5	\$ _____	\$ _____	\$ _____	\$ _____
6	\$ _____	\$ _____	\$ _____	\$ _____
7	\$ _____	\$ _____	\$ _____	\$ _____
8	\$ _____	\$ _____	\$ _____	\$ _____
9	\$ _____	\$ _____	\$ _____	\$ _____
10	\$ _____	\$ _____	\$ _____	\$ _____
11	\$ _____	\$ _____	\$ _____	\$ _____
12	\$ _____	\$ _____	\$ _____	\$ _____
13	\$ _____	\$ _____	\$ _____	\$ _____
14	\$ _____	\$ _____	\$ _____	\$ _____
Total	\$ _____	\$ _____	\$ _____	\$ _____

¹ From Attachment 2, Schedule A.

² From Attachment 2, Schedule B.

³ Sum of System Restoration Bond payments and ongoing costs.

⁴ The discount rate used is the weighted average effective annual interest rate of the System Restoration Bonds.

ATTACHMENT 2
SCHEDULE D
COMPLIANCE WITH SUBCHAPTER G OF THE UTILITIES CODE

Tangible & Quantifiable Benefits and Revenue Requirements Tests:⁵

	Conventional Financing	Securitization Financing ⁶	Savings/(Cost) of Securitization Financing
Nominal	\$ _____ million	\$ _____ million	\$ _____ million
Present Value	\$ _____ million	\$ _____ million	\$ _____ million

⁵ Calculated in accordance with the methodology cited in the Financing Order.

⁶ From Attachment 2, Schedule C.

Appendix A
Page 14 of 17

ATTACHMENT 3

INITIAL ALLOCATION OF COSTS TO SRC CLASSES

(1)	(2)	(3)	(4)	(5)	(6)
SRC Class	PBRAF ⁷	Periodic Billing Requirement	Billing Requirement per SRC Class	Forecasted Billing Determinants	SRC Charge
Residential	%	\$ _____	\$ _____	_____	\$ _____ /kWh
Secondary Service Less Than or Equal to 10 kW	%	\$ _____	\$ _____	_____	\$ _____ /kWh
Secondary Service Greater Than 10 kW	%	\$ _____	\$ _____	_____	\$ _____ /Distribution Billing kW
Primary Service	%	\$ _____	\$ _____	_____	\$ _____ /Distribution Billing kW
Lighting Service	%	\$ _____	\$ _____	_____	\$ _____ /kWh
Total	100.0000 %	\$ _____	\$ _____	_____	_____

⁷ Determined in accordance with the methodology set forth in the Financing Order and Schedule SRC.

Appendix A
Page 15 of 17

ATTACHMENT 4
FORM OF APPLICANT'S CERTIFICATION

[AEP Letterhead]

Date: _____, 2019

Public Utility Commission of Texas
1701 N. Congress Ave.
P.O. Box 13362
Austin, TX 78711-3326

Re: *Application of AEP Texas Inc. for a Financing Order*, Docket No. _____

AEP TEXAS INC. (the "Applicant") submits this Certification pursuant to Ordering Paragraph No. ___ of the Financing Order in *Application of AEP Texas Inc. for a Financing Order*, Docket No. _____ (the "Financing Order"). All capitalized terms not defined in this letter have the meanings ascribed to them in the Financing Order.

In its issuance advice letter dated _____, 2019, the Applicant has set forth the following particulars of the System Restoration Bonds:

Name of System Restoration Bonds: _____

SPE: **{BondCo}**

Closing Date: _____

Amount Issued: \$ _____

Expected Amortization Schedule: See Attachment 2, Schedule A to the Issuance Advice Letter

Distributions to Investors (quarterly or semi-annually):

Weighted Average Coupon Rate: _____%

Weighted Average Yield⁸: _____%

⁸ The internal rate of return, calculated including all up-front and ongoing costs.

Appendix A
Page 16 of 17

The following actions were taken in connection with the design, marketing, structuring and pricing of the bonds:

- Included credit enhancement in the form of the true-up mechanism and an equity contribution of 0.50% of the original principal amount.
- Registered the System Restoration Bonds with the Securities and Exchange Commission to facilitate greater liquidity.
- Achieved preliminary Aaa/AAA ratings from two of the three major rating agencies with final Aaa/AAA ratings a condition of closing.
- Worked with the Commission's designated representative(s) to select underwriters that have relevant experience and execution capability.
- Provided the term sheet and preliminary prospectus by e-mail to prospective investors.
- Allowed sufficient time for investors to review the term sheet and preliminary prospectus and to ask questions regarding the transaction.
- Arranged for the issuance of rating agency pre-sale reports during the marketing period.
- During the period that the System Restoration Bonds were marketed, held daily market update discussions with the underwriting team to develop recommendations for pricing.
- Had multiple conversations with all of the members of the underwriting team before and during the marketing phase in which we stressed the requirements of the Financing Order.
- Developed and implemented a marketing plan designed to give each of the underwriters incentive to aggressively market the System Restoration Bonds to their customers and to reach out to a broad base of potential investors, including investors who have not previously purchased this type of security.
- Provided potential investors with access to an internet roadshow for viewing on repeated occasions at investors' convenience.
- Adapted the System Restoration Bond offering to market conditions and investor demand at the time of pricing. Variables impacting the final structure of the transaction were evaluated including the length of average lives and maturity of the System Restoration Bonds and interest rate requirements at the time of pricing so that the structure of the transaction would correspond to investor preferences and rating agency requirements for AAA ratings, while meeting the requirements of the Financing Order. [After evaluation, incorporated the use of original issue discount to investors consistent with the expectation that it would provide greater benefit than its cost.]

Appendix A
Page 17 of 17

- Worked with the Commission's designated representative to develop bond allocations, underwriter compensation and preliminary price guidance designed to achieve lowest interest rates.
- Worked with Commission and underwriters (and each of our respective counsels) to finalize documentation in accordance with established standards for transactions of this sort and the terms of the financing order.

[Note: Foregoing bullet points are illustrative and will be modified to reflect actual activities in this transaction.]

Based upon information reasonably available to the officers, agents, and employees of the Applicant, the Applicant hereby certifies that the structuring and pricing of the System Restoration Bonds, as described in the issuance advice letter, will result in the lowest system restoration bond charges consistent with market conditions and the terms of the Financing Order (including the amortization structure, if any, ordered by the Commission), all within the meaning of Sections 39.301 and 36.401 of PURA. [Applicant further certifies that it reasonably expects the small amount of original issue discount associated with the bonds to provide benefits greater than its costs.]

AEP TEXAS INC.

By: _____
Name: _____
Title: _____

Appendix B

AEP TEXAS - CENTRAL DIVISION

TARIFF FOR ELECTRIC DELIVERY SERVICE

Applicable: Certified Service Area previously served by AEP Texas Central Company

Chapter: 6 Section: 6.1.1

Section Title: Delivery System Charges

Revision: Original Effective Date: Bills Rendered on or after June 1, 2019

6.1.1.6.3 Schedule SRC - System Restoration Charge

DEFINITIONS

For the purposes of this schedule the following terms shall have the following meanings:

Company – AEP Texas and its successors and assigns that provide transmission or distribution service directly to customers taking service at facilities, premises, or loads located within the Service Area.

Financing Order – the Financing Order issued by the Public Utility Commission of Texas (Commission) in Docket No. [] under Subchapter I of Chapter 36 and Subchapter G of Chapter 39 of the Texas Public Utility Regulatory Act (PURA) providing for the issuance by the Special Purpose Entity (SPE) of system restoration bonds to securitize the amount of qualified costs (Qualified Costs) determined by the Commission in such order.

Non-Eligible Self-Generation (NESG) – Electric generation capacity greater than 10 megawatts capable of being lawfully delivered to a site without use of utility distribution or transmission facilities and which was not, on or before the date the Financing Order is issued, either (A) a fully operational facility, or (B) a project supported by substantially complete filings for all necessary site-specific environmental permits under the rules of the Texas Commission on Environmental Quality, and which materially reduces or reduced customer loads on the Company's transmission and distribution system

Retail Electric Provider (REP) – the entity which serves the customer's energy needs, and will remit to the Servicer the System Restoration Charges billed in accordance with this schedule.

Service Area – the Company's certificated Central Division service area, the service area previously served by AEP Texas Central Company, as it existed on the date of approval of the Financing Order in Docket No. [].

Servicer – on the effective date of this tariff, the Company shall act as Servicer. However, the SPE may select another party to function as Servicer or the Company may resign as Servicer in accordance with terms of the Servicing Agreement and Financing Order issued in Docket No. []. A Servicer selected under these conditions shall assume the obligations of the Company as Servicer under this schedule. As used in this schedule, the term Servicer includes any successor Servicer.

Special Purpose Entity (SPE) – the owner of Transition Property, on behalf of whom the SRCs are collected.

Appendix B

AEP TEXAS - CENTRAL DIVISION

TARIFF FOR ELECTRIC DELIVERY SERVICE

Applicable: Certified Service Area previously served by AEP Texas Central Company

Chapter: 6 Section: 6.1.1

Section Title: Delivery System Charges

Revision: Original Effective Date: Bills Rendered on or after June 1, 2019

6.1.1.6.3 Schedule SRC - System Restoration Charge

System Restoration Charge (SRC) – a non-bypassable charge computed on the basis of individual end-use retail customer consumption, except for SRCs applicable to NESG for which charges are based on the output of the on-site generation utilized to meet the internal electrical requirements of the customer.

- (a) For customers whose facilities, premises, and loads are subject to SRCs billed and collected pursuant to the System Restoration Charge Rates (SRC Rates) under this schedule, the SRC Rates shall constitute a separate charge.
- (b) The assessment of SRCs will be separately identified on the bills sent to REPs.

APPLICABILITY

This schedule, along with Rider SRC, sets out the rates, terms and conditions under which SRCs shall be billed and collected by the Company, any successor Servicer(s), and any REPs on behalf of the owner of Transition Property pursuant to the terms of the Financing Order. This schedule is applicable to energy consumption and demands of retail customers taking transmission and distribution service from the Company and to facilities, premises and loads of such retail customers.

This schedule also applies to:

1. Retail customers taking service at facilities, premises, or loads located within the Service Area who are not presently receiving transmission and distribution service from the Company, but whose present facilities, premises, or loads received transmission and distribution service from the Company at any time on or after the date of approval of the Financing Order in Docket No. [] when a request to change service to another utility was not pending as of that date.
2. Retail customers located within the Service Area and prior retail customers of the Company who are served by new NESG.

Individual end-use customers are responsible for paying SRCs billed to them in accordance with the terms of this schedule. Payment is to be made to the entity that bills the customer in accordance with the terms of the Servicing Agreement and the Financing Order, which entity may be the Company, a successor Servicer, a REP, an entity designated to collect SRCs in place of the REP,

Appendix B

AEP TEXAS - CENTRAL DIVISION

TARIFF FOR ELECTRIC DELIVERY SERVICE

Applicable: Certified Service Area previously served by AEP Texas Central Company

Chapter: 6 Section: 6.1.1

Section Title: Delivery System Charges

Revision: Original Effective Date: Bills Rendered on or after June 1, 2019

6.1.1.6.3 Schedule SRC - System Restoration Charge

or other entity which, under the terms of the Financing Order or PURA, may be obligated to pay or collect the SRCs. The REP, an entity designated to collect SRCs in place of the REP, or another entity which, under the terms of the Financing Order or PURA, is obligated to pay or collect the SRCs will pay the SRCs to the Servicer. The Servicer will remit collections to the SPE in accordance with the terms of the Servicing Agreement.

TERM

This schedule shall remain in effect until SRCs have been collected and remitted to the SPE which are sufficient in amount to satisfy all obligations of the SPE in regard to paying principal and interest on the System Restoration Bonds together with all other qualified costs as provided in PURA section 36.403(d). However, in no event shall the SRCs provided for in this schedule be collected for service rendered after 15 years from issuance of the System Restoration Bonds. SRCs for service rendered during the 15-year period following issuance of the System Restoration Bonds pursuant to the Financing Order, but not collected during that 15-year period, may be collected after the 15-year period. This schedule is irrevocable and non-bypassable for the full term during which it applies.

RATE CLASSES

For the purposes of billing SRCs, each retail end-use customer shall be designated as a customer in one of the following five customer classes. A new customer shall be assigned to the appropriate customer class based on anticipated usage characteristics.

- Residential
- Secondary Service Less Than or Equal to 10 kW
- Secondary Service Greater Than 10 kW
- Primary Service
- Lighting Service

PERIODIC BILLING REQUIREMENT ALLOCATION FACTORS

The following Periodic Billing Requirement Allocation Factors (PBRF) to be used in the calculation of the SRC Rates are calculated using the methods approved by the Commission in the Financing Order. The PBRFs shall be the percentage of cost responsibility for each System Restoration Charge customer class.

Appendix B

AEP TEXAS - CENTRAL DIVISION
 TARIFF FOR ELECTRIC DELIVERY SERVICE
 Applicable: Certified Service Area previously served by AEP Texas Central Company
 Chapter: 6 Section: 6.1.1
 Section Title: Delivery System Charges
 Revision: Original Effective Date: Bills Rendered on or after June 1, 2019

6.1.1.6.3 Schedule SRC - System Restoration Charge

<u>System Restoration Charge Class</u>	<u>PBRAf</u>
Residential	52.5194%
Secondary Service Less Than or Equal to 10 kW	2.9287%
Secondary Service Greater Than 10 kW	31.8567%
Primary Service	6.0053%
Lighting Service	6.6899%

DETERMINATION OF SYSTEM RESTORATION CHARGE (SRC) RATES

SRC Rates will be adjusted no less frequently than annually in order to ensure that the expected collection of SRCs is adequate to pay when due, pursuant to the expected amortization schedule, principal and interest on the System Restoration Bonds and pay on a timely basis other Qualified Costs. The SRC Rates shall be computed by multiplying the PBRAfs times the Periodic Billing Requirement (PBR) for the projected period in which the adjusted SRC Rates are expected to be in effect (SRC Period), and dividing such amount by the billing units of the SRC customer class, as shown in the following formula:

$$SRC_c = [(PBR * PBRAf_c) + P_c] / FBU_c$$

where,

SRC_c = System Restoration Charge Rate applicable to a SRC rate class during the SRC Period;

PBR = Periodic Billing Requirement for the SRC Period;

$PBRAf_c$ = The Periodic Billing Requirement Allocation Factor for such class in effect at such time;

P_c = Prior period over-/under-recovery for such class;

FBU_c = Forecasted Billing Units (i.e., class-specific energy or demand billing units) currently forecast for a class for the SRC period.

TRUE-UP ADJUSTMENT PROCEDURE

Appendix B

AEP TEXAS - CENTRAL DIVISION

TARIFF FOR ELECTRIC DELIVERY SERVICE

Applicable: Certified Service Area previously served by AEP Texas Central Company

Chapter: 6 Section: 6.1.1

Section Title: Delivery System Charges

Revision: Original Effective Date: Bills Rendered on or after June 1, 2019

6.1.1.6.3 Schedule SRC - System Restoration Charge

Not less than 15 days prior to the first billing cycle for the Company's June billing month, and no less frequently than annually, the Servicer shall file a revised Rider SRC setting forth the upcoming SRC period's SRC Rates, complete with all supporting materials. The adjusted SRC Rates will become effective on the first billing cycle of the Company's June billing month. The Commission will have 15 days after the date of the true-up filing in which to confirm the accuracy of the of the Servicer's adjustment. Any necessary corrections to the adjusted SRC Rates, due to mathematical errors in the calculation of such rates or otherwise, will be made in a future true-up adjustment filing.

In addition, optional interim true-up adjustments may be made more frequently by the Servicer at any time during the term of the system restoration bonds to correct any undercollection or overcollection, as provided for in the Financing Order, in order to assure timely payment of the System Restoration Bonds based on rating agency and bondholder considerations. Mandatory interim true-up adjustments shall be made semi-annually (or quarterly after the final scheduled payment date of the last tranche of the System Restoration Bonds) if the Servicer forecasts that system restoration charge collections will be insufficient to make all scheduled payments of principal, interest and other amounts in respect of the System Restoration Bonds on a timely basis during the current or next succeeding payment period and/or or to replenish any draws upon the capital subaccount. The interim true-up adjustment will be filed no later than 15 days prior to the following month's first billing cycle for implementation. Filing with and review by the Commission will be accomplished for the interim true-up adjustment in the manner as for the annual true-up adjustment set forth above. In no event will a mandatory interim true-up adjustment occur more frequently than every six months provided, however, that mandatory interim true-up adjustments after the final scheduled payment date of the last tranche of the System Restoration Bonds shall occur quarterly.

In the event that the forecasted billing units for one or more of the System Restoration Charge customer classes for an upcoming period decreases by more than 10% of the threshold billing units set forth in the Financing Order, the Servicer shall make a true-up filing at least 90 days before the effective date of the next annual true-up adjustment. The true-up shall be conducted in the following manner. The Servicer shall:

- (a) allocate the upcoming period's Periodic Billing Requirement based on the PBRAFs approved in the Financing Order;
- (b) calculate undercollections or overcollections from the preceding period in each class by subtracting the previous period's system restoration charge

Appendix B

AEP TEXAS - CENTRAL DIVISION
TARIFF FOR ELECTRIC DELIVERY SERVICE

Applicable: Certified Service Area previously served by AEP Texas Central Company

Chapter: 6 Section: 6.1.1

Section Title: Delivery System Charges

Revision: Original Effective Date: Bills Rendered on or after June 1, 2019

6.1.1.6.3 Schedule SRC - System Restoration Charge

revenues collected from each class from the Periodic Billing Requirement determined for that class for the same period;

- (c) sum the amounts allocated to each customer class in steps (a) and (b) above to determine an adjusted Periodic Billing Requirement for each customer class;
- (d) divide the Periodic Billing Requirement for each customer class by the maximum of the forecasted billing units or the threshold billing units for that class, to determine the threshold rate;
- (e) multiply the threshold rate by the forecasted billing units for each class to determine the expected collections under the threshold rate;
- (f) allocate the difference in the adjusted Periodic Billing Requirement and the expected collections calculated in step (e) among the system restoration charge customer classes using the PBRAFs approved in this Financing Order;
- (g) add the amount allocated to each class in step (f) above to the expected collection amount by class calculated in step (e) above to determine the final Periodic Billing Requirement for each class; and
- (h) divide the final Periodic Billing Requirement for each class by the forecasted billing units to determine the system restoration charge rate by class for the upcoming period. The final Periodic Billing Requirement class percentage of the total Periodic Billing Requirement equals the adjusted PBRAFs.

BILLING AND COLLECTION TERMS AND CONDITIONS

The billing and collection of SRCs may differ as set forth in this schedule. The terms and conditions for each party are set forth below:

A. Billings by Servicer to other electric utilities, municipally owned utilities, and cooperatives:

Appendix B

AEP TEXAS - CENTRAL DIVISION

TARIFF FOR ELECTRIC DELIVERY SERVICE

Applicable: Certified Service Area previously served by AEP Texas Central Company

Chapter: 6 Section: 6.1.1

Section Title: Delivery System Charges

Revision: Original Effective Date: Bills Rendered on or after June 1, 2019

6.1.1.6.3 Schedule SRC - System Restoration Charge

1. Applicable to former retail customers of the Company in multiply certificated service areas who requested to switch from the Company to a different service provider on or after approval of the Financing Order, and are now taking service from other electric utilities, municipally owned utilities, or cooperatives or through REPs served from other electric utilities, municipally owned utilities, or cooperatives.
2. Charges subject to this tariff must be paid in full by the other electric utility, municipally owned utility, or cooperative to the Servicer 35 days after billing by the Servicer regardless of whether the electric utility, municipally owned utility, or cooperative collects such charges from the end-use retail customer or from the REP, if applicable.

B. Billings by Servicer to NESG:

1. Applicable to end-use consumption served by on-site non-eligible self-generation. The SRCs applicable to NESG are in addition to the applicable System Restoration Charges under A above or C below.
2. Payment terms pursuant to the requirements of PURA, applicable Commission rules, and the Commission's Financing Order in Docket No. [].
3. Rate class determined by summing loads on the transmission and distribution system with loads served by non-eligible generation.
4. Servicer has the right to terminate for non-payment pursuant to the Commission's rules.

C. Billings by the REP or its Replacement to End-Use Customers:

1. Applicable to consumption of all retail end-use customers served by the REP for which SRCs apply, including applicable former customers and NESG, under the following conditions:
2. REPs shall provide the Servicer with full and timely information necessary to provide proper reporting and for billing and true-up adjustments.

Appendix B

AEP TEXAS - CENTRAL DIVISION

TARIFF FOR ELECTRIC DELIVERY SERVICE

Applicable: Certified Service Area previously served by AEP Texas Central Company

Chapter: 6 Section: 6.1.1

Section Title: Delivery System Charges

Revision: Original Effective Date: Bills Rendered on or after June 1, 2019

6.1.1.6.3 Schedule SRC - System Restoration Charge

3. Each REP must (1) have a long-term, unsecured credit rating of not less than “BBB-” and “Baa3” (or the equivalent) from Standard & Poor’s and Moody’s Investors Service, respectively, or (2) provide (A) a deposit of two months’ maximum expected System Restoration Charge collections in the form of cash, (B) an affiliate guarantee, surety bond, or letter of credit providing for payment of such amount of System Restoration Charge collections in the event that the REP defaults in its payment obligations, or (C) a combination of any of the foregoing. A REP that does not have or maintain the requisite long-term, unsecured credit rating may select which alternate form of deposit, credit support, or combination thereof it will utilize, in its sole discretion. The Indenture Trustee shall be the beneficiary of any affiliate guarantee, surety bond or letter of credit. The provider of any affiliate guarantee, surety bond, or letter of credit must have and maintain a long-term, unsecured credit ratings of not less than “BBB-” and “Baa3” (or the equivalent) from Standard & Poor’s and Moody’s Investors Service, respectively.
4. If the long-term, unsecured credit rating from either Standard & Poor’s or Moody’s Investors Service of a REP that did not previously provide the alternate form of deposit, credit support, or combination thereof or of any provider of an affiliate guarantee, surety bond, or letter of credit is suspended, withdrawn, or downgraded below “BBB-” or “Baa3” (or the equivalent), the REP must provide the alternate form of deposit, credit support, or combination thereof, or new forms thereof, in each case from providers with the requisite ratings, within 10 business days following such suspension, withdrawal, or downgrade. A REP failing to make such provision must comply with the provisions set forth in Paragraph 3 of the next section, Billings by the Servicer to the REP or its Replacement (when applicable).
5. The computation of the size of a required deposit shall be agreed upon by the Servicer and the REP, and reviewed no more frequently than quarterly to ensure that the deposit accurately reflects two months’ maximum collections. Within 10 business days following such review, (1) the REP shall remit to the Indenture Trustee the amount of any shortfall in such required deposit or (2) the Servicer shall instruct the Indenture Trustee to remit to the REP any amount in excess of such required deposit. A REP failing to so remit any such shortfall must comply with the provisions set forth in Paragraph 3 of the next section, Billings by the Servicer to the REP or its Replacement (when applicable). REP cash deposits shall be held by the Indenture Trustee, maintained in a segregated account, and invested in short-term high quality investments, as permitted by the rating agencies rating the System Restoration Bonds. Investment earnings on REP cash deposits shall be considered

Appendix B

AEP TEXAS - CENTRAL DIVISION

TARIFF FOR ELECTRIC DELIVERY SERVICE

Applicable: Certified Service Area previously served by AEP Texas Central Company

Chapter: 6 Section: 6.1.1

Section Title: Delivery System Charges

Revision: Original Effective Date: Bills Rendered on or after June 1, 2019

6.1.1.6.3 Schedule SRC - System Restoration Charge

part of such cash deposits so long as they remain on deposit with the Indenture Trustee. At the instruction of the Servicer, cash deposits will be remitted with investment earnings to the REP at the end of the term of the System Restoration Bonds unless otherwise utilized for the payment of the REP's obligations for System Restoration Charge payments. Once the deposit is no longer required, the Servicer shall promptly (but not later than 30 calendar days) instruct the Indenture Trustee to remit the amounts in the segregated accounts to the REP.

6. In the event that a REP or the POLR is billing customers for SRCs, the REP shall have the right to transfer the customer to the Provider of Last Resort (POLR) (or to another certified REP) or to direct the Servicer to terminate transmission and distribution service to the end-use customer for non-payment by the end-use customer pursuant to applicable Commission rules.

D. Billings by the Servicer to the REP or its Replacement (when applicable):

1. Applicable to all consumption subject to REP billing of SRCs.
2. Payments of SRCs are due 35 calendar days following each billing by the Servicer to the REP, without regard to whether or when the REP receives payment from its retail customers. The Servicer shall accept payment by electronic funds transfer (EFT), wire transfer (WT) and/or check. Payment will be considered received the date the EFT or WT is received by the Servicer, or the date the check clears. A 5% penalty is to be charged on amounts received after 35 calendar days; however, a 10-calendar-day grace period will be allowed before the REP is considered to be in default. A REP in default must comply with the provisions set forth in Paragraph 3 below. The 5% penalty will be a one-time assessment measured against the current amount overdue from the REP to the Servicer. The current amount consists of the total unpaid System Restoration Charges existing on the 36th calendar day after billing by the Servicer. Any and all such penalty payments will be made to the Indenture Trustee to be applied against System Restoration Charge obligations. A REP shall not be obligated to pay the overdue System Restoration Charges of another REP. If a REP agrees to assume the responsibility for the payment of overdue System Restoration Charges as a condition of receiving the customers of another REP who has decided to terminate service to those customers for any reason, the new REP shall not be assessed the 5% penalty upon such System Restoration Charges; however, the prior REP shall not be relieved of the previously assessed penalties.

Appendix B

AEP TEXAS - CENTRAL DIVISION

TARIFF FOR ELECTRIC DELIVERY SERVICE

Applicable: Certified Service Area previously served by AEP Texas Central Company

Chapter: 6 Section: 6.1.1

Section Title: Delivery System Charges

Revision: Original Effective Date: Bills Rendered on or after June 1, 2019

6.1.1.6.3 Schedule SRC - System Restoration Charge

3. After the 10 calendar-day grace period (the 45th calendar day after the billing date) referred to in Paragraph 2 above, the Servicer shall have the option to seek recourse against any cash deposit, affiliate guarantee, surety bond, letter of credit, or combination thereof made by the REP, and avail itself of such legal remedies as may be appropriate to collect any remaining unpaid System Restoration Charges and associated penalties due the Servicer after the application of the REP's deposit or alternate form of credit support. In addition, a REP that is in default with respect to the requirements set forth in Paragraphs 4 and 5 of the previous section, Billings by the REP or its Replacement to End-Use Customers, and Paragraph 2 of this section shall select and implement one of the following options:

(a) Allow the Provider of Last Resort (POLR) or a qualified REP of the customer's choosing to immediately assume the responsibility for the billing and collection of System Restoration Charges.

(b) Immediately implement other mutually suitable and agreeable arrangements with the Servicer. It is expressly understood that the Servicer's ability to agree to any other arrangements will be limited by the terms of the servicing agreement and requirements of each of the rating agencies that have rated the System Restoration Bonds necessary to avoid a suspension, withdrawal, or downgrade of the ratings on the System Restoration Bonds.

(c) Arrange that all amounts owed by retail customers for services rendered be timely billed and immediately paid directly into a lock-box controlled by the Servicer with such amounts to be applied first to pay System Restoration Charges before the remaining amounts are released to the REP. All costs associated with this mechanism will be borne solely by the REP.

If a REP that is in default fails to immediately select and implement one of the foregoing options in (a), (b), or (c) or, after so selecting one of the foregoing options, fails to adequately meet its responsibilities thereunder, then the Servicer shall immediately implement option (a). Upon re-establishment of the requirements set forth in Paragraphs 4 and 5 of the previous section, Billings by the REP or its Replacement to End-Use Customers, and Paragraph 2 of this section and the payment of all past-due amounts and associated penalties, the REP will no longer be required to comply with this subsection.

Appendix B

AEP TEXAS - CENTRAL DIVISION

TARIFF FOR ELECTRIC DELIVERY SERVICE

Applicable: Certified Service Area previously served by AEP Texas Central Company

Chapter: 6 Section: 6.1.1

Section Title: Delivery System Charges

Revision: Original Effective Date: Bills Rendered on or after June 1, 2019

6.1.1.6.3 Schedule SRC - System Restoration Charge

4. The POLR will be required to meet the minimum credit rating and/or deposit/credit support requirements described in Paragraph 3 of the preceding section, Billings by the REP or its Replacement to End-Use Customers, in addition to any other standards that may be adopted by the Commission. If the POLR defaults or is not eligible to provide such services, responsibility for billing and collection of transition charges will immediately be transferred to and assumed by the Servicer until a new POLR can be named by the Commission or the customer requests the services of a certified REP. Retail customers may never be re-billed by the successor REP, the POLR, or Servicer for any amount of System Restoration Charges they have paid their REP (although future SRCs shall reflect REP and other system-wide charge-offs). Additionally, if the amount of the penalty detailed in Paragraph 2 of this section is the sole remaining past-due amount after the 45th day, the REP shall not be required to comply with (a), (b), or (c) above, unless the penalty is not paid within an additional 30 calendar days.
5. In the event the Servicer is billing customers for System Restoration Charges, the Servicer shall have the right to terminate transmission and distribution service for non-payment by end-use customers pursuant to the Commission's rules.
6. Notwithstanding Paragraph 2 of this section, the REPs will be allowed to hold back an allowance for charge-offs in their payments to the Servicer. Such charge-off rate will be recalculated each year in connection with the annual true-up procedure. In the initial year, the REPs will be allowed to remit payments based on the same system-wide charge off percentage then being used for the transition bonds issued by AEP Texas Central Transition Funding III LLC under the financing order issued in Docket No. 39931. On an annual basis in connection with the annual true-up adjustment process, the REP and the Servicer will be responsible for reconciling the amounts held back with amounts actually written off as uncollectible in accordance with the terms agreed to by the REP and the Servicer, provided that:
 - (a) The REP's right to reconciliation for write-offs will be limited to customers whose service has been permanently terminated and whose entire accounts (i.e., all amounts due the REP for its own account as well as the portion representing System Restoration Charges) have been written off.
 - (b) The REP's recourse will be limited to a credit against future SRC payments unless the REP and the Servicer agree to alternative arrangements, but in no event will the REP have recourse to the SPE or its funds for such payments.

Appendix B

AEP TEXAS - CENTRAL DIVISION
TARIFF FOR ELECTRIC DELIVERY SERVICE

Applicable: Certified Service Area previously served by AEP Texas Central Company

Chapter: 6 Section: 6.1.1

Section Title: Delivery System Charges

Revision: Original Effective Date: Bills Rendered on or after June 1, 2019

6.1.1.6.3 Schedule SRC - System Restoration Charge

(c) The REP shall provide information on a timely basis to the Servicer so that the Servicer can include the REP's default experience and any subsequent credits into its calculation of the adjusted SRC Rates for the next SRC billing period and the REP's rights to credits will not take effect until after such adjusted SRC Rates have been implemented.

7. In the event that a REP disputes any amount of billed System Restoration Charges, the REP shall pay the disputed amount under protest according to the timelines detailed in Paragraph 2 of this section. The REP and Servicer shall first attempt to informally resolve the dispute, but if failing to do so within 30 calendar days, either party may file a complaint with the Commission. If the REP is successful in the dispute process (informal or formal), the REP shall be entitled to interest on the disputed amount paid to the Servicer at the Commission-approved interest rate. Disputes about the date of receipt of System Restoration Charge payments (and penalties arising thereof) will be handled in a like manner. Any interest paid by the Servicer on disputed amounts shall not be recovered through System Restoration Charges if it is determined that the Servicer's claim to the funds is clearly unfounded. No interest shall be paid by the Servicer if it is determined that the Servicer has received inaccurate metering data from another entity providing competitive metering services pursuant to PURA section 39.107.
8. If the Servicer is providing the metering, the metering data will be provided to the REP at the same time as the billing. If the Servicer is not providing the metering, the entity providing metering service(s) will be responsible for complying with Commission rules and ensuring that the Servicer and the REP receive timely and accurate metering data in order for the Servicer to meet its obligations under the Servicing Agreement and the Financing Order with respect to billing and true-ups.

OTHER TERMS AND CONDITIONS

If the customer, REP, or other entity which, under the terms of the Financing Order or PURA, may be obligated to pay or collect the SRCs, pays only a portion of its bill, a pro-rata share amount of System Restoration Charge revenues shall be deemed to be collected. In the event of any such shortfall, the amount paid shall first be apportioned between the system restoration charges and other fees and charges owed to the Company or any successor, other than late fees, ratably based on the amount owed for System Restoration Charges and the amount owed for other fees and charges (including transition charges or system restoration charges owed for other current or future

Appendix B

AEP TEXAS - CENTRAL DIVISION

TARIFF FOR ELECTRIC DELIVERY SERVICE

Applicable: Certified Service Area previously served by AEP Texas Central Company

Chapter: 6 Section: 6.1.1

Section Title: Delivery System Charges

Revision: Original Effective Date: Bills Rendered on or after June 1, 2019

6.1.1.6.3 Schedule SRC - System Restoration Charge

transition bonds and system restoration bonds), and second, any remaining portion of such payment shall be allocated to late fees.

At least once each year, (i) the Company shall cause to be prepared and delivered to REPs and such customers a notice stating, in effect, that the Transition Property and the System Restoration Charges are owned by the SPE and not the Company; and (ii) each REP which bills System Restoration Charges shall cause to be prepared and delivered to such customers a notice stating, in effect, that the Transition Property and the System Restoration Charges are owned by the SPE and not the REP or the Company. Such notice shall be included either as an insert to or in the text of the bills delivered to such REPs or customers, as applicable, or shall be delivered to customers by electronic means or such other means as the Servicer or the REP may from time to time use to communicate with their respective customers.

Appendix B

**AEP TEXAS - CENTRAL DIVISION
 TARIFF FOR ELECTRIC DELIVERY SERVICE**

Applicable: Certified Service Area previously served by AEP Texas Central Company

Chapter: 6 Section: 6.1.1

Section Title: Delivery System Charges

Revision: Original Effective Date: Bills Rendered on or after June 1, 2019

6.1.1.6.3.1 Rider SRC – System Restoration Charge Factors

AVAILABILITY

This schedule is applicable to billed energy consumption and demands of retail customers taking service from the Company during the term that this schedule is in effect, and to the facilities, premises, and loads of all other retail customers obligated to pay Rider SRC Charges as provided in Schedule SRC, Section 6.1.1.6.3. Terms defined in Schedule SRC that are used herein shall have the same meaning as set forth in Schedule SRC.

RATE CLASSES

For purposes of billing System Restoration Charge Rates (SRC Rates), each retail end-use customer will be designated as a customer belonging to one of five classes as identified by Schedule SRC.

SYSTEM RESTORATION CHARGE RATES

<u>System Restoration Charge Customer Class</u>	<u>SRC Rates</u>
Residential	\$0.001472 per kWh
Secondary Service Less Than or Equal to 10 kW	\$0.001842 per kWh
Secondary Service Greater Than 10 kW	\$0.307337 per Distribution Billing kW
Primary Service	\$0.246113 per Distribution Billing kW
Lighting Service	\$0.008522 per kWh

The SRC Rates are multiplied by the kWh or kW, as applicable, read, estimated or determined during the billing month and will be applied to bills rendered on and after the effective date.

SYSTEM RESTORATION CHARGE TRUE-UP

The Restoration Charge Rates shall be determined in accordance with and are subject to the provisions set forth in the Financing Order and Schedule SRC. Not less than 15 days prior to the first billing cycle for the Company's June billing month and no less frequently than annually thereafter, the Company or successor Servicer will file a revision to Rider SRC setting forth the adjusted SRC Rates to be effective for the upcoming period. If made as a result of the annual true-up adjustment in Schedule SRC, the adjusted SRC Rates will become effective on the first billing cycle of the Company's June billing month. In accordance with Schedule SRC, an interim true-up is mandatory semi-annually (or quarterly after the final scheduled payment date of the last tranche of the system restoration bonds) if the Servicer forecasts that system restoration charge collections

Appendix B

AEP TEXAS - CENTRAL DIVISION

TARIFF FOR ELECTRIC DELIVERY SERVICE

Applicable: Certified Service Area previously served by AEP Texas Central Company

Chapter: 6 Section: 6.1.1

Section Title: Delivery System Charges

Revision: Original Effective Date: Bills Rendered on or after June 1, 2019

6.1.1.6.3.1 Rider SRC – System Restoration Charge Factors

will be insufficient to make all scheduled payments of principal, interest and other amounts in respect of the System Restoration Bonds on a timely basis during the current or next succeeding payment period and/or or to replenish any draws upon the capital subaccount. Optional interim true-ups may also be made at any time as described in Schedule SRC. If an interim true-up adjustment is made pursuant to Schedule SRC, the Adjusted SRC Rates will be become effective on the first billing cycle of the Company's billing month that is not less than 15 days following the making of the interim true-up adjustment filing. In the event that the forecasted billing units for one or more of the System Restoration Charge customer classes for an upcoming period decreases by more than 10% of the threshold billing units set forth in the Financing Order, the Servicer shall make a true-up filing at least 90 days prior to the first billing cycle for the Company's June billing month.

Appendix C

ESTIMATED UP-FRONT QUALIFIED COSTS

CAPPED UP-FRONT QUALIFIED COSTS	
	\$
Legal Fees (Company, Issuer, and Underwriter)	
Accountant's Fees	
Trustee's/Trustee Counsel's Fees and Expenses	
Servicer's Set-up Costs	
Printing/Edgarizing	
Company Advisor's Fee	
SPE Setup Costs	
Securitization Proceeding Expenses	
Miscellaneous Administrative Costs	
Underwriters' Fees	
Subtotal Capped Up-Front Qualified Costs	3,650,241
UNCAPPED UP-FRONT QUALIFIED COSTS	
Commission's Financial Advisor Fees	200,000
Legal Fees for Counsel to the Commission's Advisor, if any	
Original Issue Discount	
Cost of Other Credit Enhancements	
Rating Agency Fees	530,785
SEC Registration Fees	27,766
Rounding/Contingency	
TOTAL UP-FRONT QUALIFIED COSTS SECURITIZED	4,408,792

Appendix C

ONGOING QUALIFIED COSTS

	ANNUAL AMOUNT
Servicing Fee (AEP Texas as Servicer) (0.10% of initial System Restoration Bond principal amount)	\$ 229,469
Administration Fee	\$ 100,000
Accountant's Fee	\$ 50,000
Legal Fees/Expenses for Company's/Issuer's Counsel	\$ 55,000
Trustee's/Trustee's Counsel Fees and Expenses	\$ 2,500
Independent Manager's Fees	\$ 2,500
Rating Agency Fees	\$ 45,000
Printing/Edgarizing Fees	\$ 10,000
Miscellaneous	\$ 10,000
TOTAL ONGOING QUALIFIED COSTS (with AEP Texas as Servicer)	\$ 504,469
Ongoing Servicers Fee (Third Party as Servicer) (0.60 % of principal amount)	\$ 1,376,811
TOTAL ONGOING QUALIFIED COSTS (Third Party as Servicer)	\$ 1,651,811

Appendix D

AEP TEXAS - CENTRAL DIVISION
 TARIFF FOR ELECTRIC DELIVERY SERVICE

Applicable: Certified Service Area previously served by AEP Texas Central Company
 Chapter: 6 Section: 6.1.1
 Section Title: Delivery System Charges
 Revision: Original Effective Date: Bills Rendered on or after June 1, 2019

6.1.1.6.5. Rider ADFIT – ADFIT Credit

APPLICABILITY

Pursuant to Public Utility Commission of Texas Docket No. [], the ADFIT Credit is a negative charge to customers subject to Schedule SRC to provide customers the accumulated deferred federal income tax (ADFIT) benefits associated with Hurricane Harvey and other system restoration costs.

This schedule is applicable to billed energy consumption and demands of retail customers taking service from the Company during the term that this schedule is in effect, and to the facilities, premises, and loads of all other retail customers obligated to pay Rider SRC Charges as provided in Schedule SRC, Section 6.1.1.6.3. Terms defined in Schedule SRC that are used herein shall have the same meaning as set forth in Schedule SRC.

TERM

This Rider ADFITC is effective beginning on the date Schedule SRC is effective and will remain in effect over the 10-year term of Schedule SRC.

ADFIT ALLOCATION FACTORS

The ADFIT Allocation Factors are the same as the PBRAFs in Schedule SRC.

ADFITC RATES

The ADFITC Credits to be applied beginning on the effective date of this Rider ADFITC are set out below. The ADFITC rate classes and billing units are the same as the classes and billing units in Rider SRC. In addition, ADFITC Credits are applicable to each customer which has New On-Site Generation as defined in Schedule SRC, and to customers in multiply-certificated areas who request to switch from AEP Texas to another service provider on or after the date of approval of the Financing Order in Docket No. [], as and to the extent Schedule SRC charges are applicable to such customers. ADFITC Credits to be applied in subsequent periods will be determined in the annual true-up process.

ADFITC Rate Class

ADFITC Rates

Residential	(\$0.000144) per kWh
Secondary Service Less Than or Equal to 10 kW	(\$0.000180) per kWh
Secondary Service Greater Than 10 kW	(\$0.030098) per Distribution Billing kW
Primary Service	(\$0.024103) per Distribution Billing kW
Lighting Service	(\$0.000835) per kWh

Appendix D

AEP TEXAS - CENTRAL DIVISION

TARIFF FOR ELECTRIC DELIVERY SERVICE

Applicable: Certified Service Area previously served by AEP Texas Central Company

Chapter: 6 Section: 6.1.1

Section Title: Delivery System Charges

Revision: Original Effective Date: Bills Rendered on or after June 1, 2019

6.1.1.6.5. Rider ADFIT – ADFIT Credit

The ADFITC Rates are multiplied by the kWh or kW, as applicable, read, estimated or determined during the billing month and will be applied to bills rendered on and after the effective date.

ADFITC TRUE-UP ADJUSTMENT

ADFITC Charges shall be adjusted annually effective on each date that charges in Schedule SRC become effective. The ADFITC true-up will be performed at the same time, using the same methodology and billing determinants, as the Standard True-Up or Non-Standard True-Up for Rate Schedule SRC. The ADFITC Charges shall be adjusted to (1) correct any over-credit or under-credit of the amounts previously scheduled to be provided to customers and (2) reflect the amounts scheduled to be provided to customers during the period the adjusted ADFITC Charges are to be effective.

OTHER TERMS AND CONDITIONS

If the customer or REP pays only a portion of its bill, a pro-rata portion of ADFITC Charge credits will be credited equal to the pro-rata portion of Schedule SRC collected according to Schedule SRC.

Appendix E

**AEP TEXAS CENTRAL DIVISION
 THRESHOLD BILLING DETERMINANTS FOR DETERMINING THE NON-STANDARD TRUE-UP
 CALCULATION OF NON-STANDARD TRUE-UP THRESHOLD**

		<u>(1)</u> 12 Months Ended 9/30/2018 SRC Billing Units	<u>(2)</u> Non-Standard True-up Threshold (90% of Column (1))
Residential	kWh	10,223,037,624	9,200,733,862
Secondary Service Less Than or Equal to 10 kW	kWh	446,391,924	401,752,732
Secondary Service Greater Than 10 kW	kW	29,112,261	26,201,035
Primary Service	kW	6,688,519	6,019,667
Lighting Service	kWh	222,078,177	199,870,359

Kentucky Power Company
KPSC Case No. 2023-00159
Commission Staff's Fifth Set of Data Requests
Dated October 6, 2023

DATA REQUEST

KPSC 5_32 Describe the process by which Kentucky Power intends to select the lead bookrunning underwriter.

RESPONSE

Please see Witness Niehaus response to KPSC 4_31 in which she states, “The underwriters will be chosen by the Company, on the basis of their involvement in the asset class and the corporate and structured products space writ large and the experience of their syndicate and salesforce. The Company will work with the selected underwriter to sell the bonds on an “arm’s length basis.” AEP and its operating utilities, including the Company, are regular issuers in the capital markets, and the proposed arm’s length relationship with the underwriters is consistent with other transactions. Goldman Sachs will not have control or visibility into the Company’s dealings with any other engaged underwriters.”

Please also see Witness Niehaus response to KPSC 4_32 in which she states, “The underwriters are chosen on the basis of prior demonstrated experience with both utility securitizations as well as other similar asset classes. However, it is important to keep in mind that the market-clearing price of each deal is dependent on a number of additional factors, including, but not limited to, market conditions at the time of marketing and pricing.

Kentucky Power has solicited inputs from several of its banking partners on approach to securitization including a discussion of each bank’s qualifications and experience.

Witness: Franz D. Messner

Kentucky Power Company
KPSC Case No. 2023-00159
Commission Staff's Fifth Set of Data Requests
Dated October 6, 2023

DATA REQUEST

KPSC 5_33 Provide a list of all past debt sales by Kentucky Power where the amount of underwriting compensation has been tied to performance.

RESPONSE

The amount of underwriting compensation has not been tied to performance in any prior Kentucky Power debt sales. Underwriting compensation typically is not directly linked to specific deal performance as there are many factors that can impact the final market-clearing price of each deal such as market conditions at the time of marketing and pricing. Generally, for public debt issuances there are industry standards for underwriter compensation. As an example underwriter compensation for a 10-year bond is 65 basis points while underwriter compensation for a 30-year bond is 87.5 basis points. Compensation for other, non-public debt issuances such as a private placement is often based on a prevailing market conditions and negotiation with the bank or banks supporting the deal.

Witness: Franz D. Messner

Kentucky Power Company
KPSC Case No. 2023-00159
Commission Staff's Fifth Set of Data Requests
Dated October 6, 2023

DATA REQUEST

KPSC 5_34 Provide language from the underwriting agreement from a recent utility securitization transaction in which Goldman was the lead underwriter that explains Goldman's fiduciary responsibility to the utility's ratepayers.

RESPONSE

As an underwriting agreement is a contract between the underwriters, on one hand, and the utility and SPE, on the other, and Goldman Sachs is unaware of a recent utility securitization underwriting agreement that addresses Goldman Sachs's fiduciary responsibilities to a utility's customers.

Witness: Katrina Niehaus

Kentucky Power Company
KPSC Case No. 2023-00159
Commission Staff's Fifth Set of Data Requests
Dated October 6, 2023

DATA REQUEST

KPSC 5_35 Explain whether the bonds will, be marketed primarily to investors of Asset Backed Securities or investors of AAA corporate debt.

RESPONSE

Goldman Sachs always seeks to create marketing processes that will achieve both superior pricing execution and broad distribution. Part of this strategy includes customizing bond structures that accommodate for recent investor demand trends, which maximizes engagement and bookbuild. In addition to sizing bonds to investor demand, Goldman Sachs believes the best way to achieve the lowest cost for ratepayers is to market to a wide variety of investors. The most effective way to drive down pricing is to build the broadest order book possible, which is accomplished when we structure transactions that are marketable across investor types (ABS, Corporate, Municipal, etc.).

To reach these goals, Goldman Sachs targets the complete spectrum of investors, including traditional ABS buyers, corporate buyers, municipal buyers, and more through, fully-staffed, product-specialist sales teams in each of these market sectors. Accordingly, Goldman Sachs canvases investors across both small and large institutions and across both traditional and alternative asset managers. Goldman Sachs expects that investor demand for Kentucky bonds will be consistent with the RRB buyer base Goldman Sachs has helped to build over the last several years, which includes banks, money managers, insurance companies and pension funds. Based on historical precedent, Goldman Sachs tends to see more traditional ABS investors participate in shorter tranches (under 10-year WAL), while the strongest demand from traditional corporate investors in longer (20+ year WAL). In general, money managers and insurance companies have been participating across the duration curve in rate reduction bond securitizations.

The investors that will be targeted ultimately depend on the final structure and recent investor participation in similar issuances. However, given that the preliminary structure is showing a WAL under 10 years, it is probable to see more traditional ABS investors interested and hence targeted. However, Goldman Sachs will aim to target both sets of investors and will not prioritize marketing to one investor base over another.

Witness: Katrina Niehaus

Kentucky Power Company
KPSC Case No. 2023-00159
Commission Staff's Fifth Set of Data Requests
Dated October 6, 2023

DATA REQUEST

KPSC 5_36 Refer to Kentucky Power's response to Staff's Fourth Request, Item 2, Attachment 1 and Exhibit MMS-5.

RESPONSE

This statement appears to the Company to relate to Staff's Fifth Request, Item 37. Please refer to the Company's response to KPSC 5-37.

Preparer: Counsel

Kentucky Power Company
KPSC Case No. 2023-00159
Commission Staff's Fifth Set of Data Requests
Dated October 6, 2023

DATA REQUEST

- KPSC 5_37** Explain and provide an Excel format with all cells, rows, and columns unprotected and fully accessible the reconciliation between the 1.1 percent and 1.7 percent impact of the Securitization Financing Rider on residential bills in Attachment 1 and the 5.8233 percent residential Securitization Financing Rider shown in Exhibit MMS-5.
- a. Explain the reason the percentage change for RS-TOD customers varies inconsistently between 1.1 percent and 1.7 percent in Attachment 1. Provide all supporting calculations and documentation.
 - b. Provide an Excel spreadsheet with all cells, rows, and columns unprotected and fully accessible showing the percentage change, on average, due to the Securitization Financing Rider for each customer class.

RESPONSE

KPCO_R_KPSC_4_2_Attachment1 contains the typical bill effect of the SFR to a residential customer's bill while also removing the Decommissioning Rider. The 5.8233% reflected in Exhibit MMS-5 is the percentage of revenue factor that will be applied to a residential customer's bill and not a total bill increase.

- a. Cells BR 41-43 were not correctly picking up the Environmental Surcharge "proposed rate" which incorrectly calculated a 1.1% increase instead of 1.7%. Please see KPCO_R_KPSC_5_37_Attachment1 for the corrected attachment.
- b. Please see KPCO_R_KPSC_5_37_Attachment1 for the requested information.

Witness: Michael M. Spaeth

Kentucky Power Company
KPSC Case No. 2023-00159
Commission Staff's Fifth Set of Data Requests
Dated October 6, 2023

DATA REQUEST

KPSC 5_38 Refer to Kentucky Power's response to Staff's Second Request, Item 1, Attachment 10, MessnerWP1. Confirm that discounting the securitization payments by five months more than the conventional amounts received from customers overstates the net present value savings. If not confirmed, explain considering that the conventional amounts are discounted monthly and the securitization amounts are discounted semi-annually.

RESPONSE

The Illustrative net present value of savings calculated in Attachment 10, MessnerWP1 does not overstate the net present value of savings, primarily due to the adjustments to rates and payment timing between a monthly view and a semiannual view.

The conventional recovery scenario assumed a monthly payment while the securitization scenario assumed semiannual payments consistent with the typical semiannual bond payment structure. As such, the rate for conventional recovery was divided by 12 to create a monthly rate while the rate for securitization recovery was divided by 2 to create a semiannual rate. Similarly, the discount rates were divided by 12 in the case of conventional recovery and 2 in the case of securitization recovery. Lastly, the number of periods over which recovery and present value were calculated were also adjusted based on whether it was a monthly conventional scenario or a semiannual securitization scenario.

As an example, the Big Sandy monthly conventional recovery assumed a 17-year monthly recovery over 204 periods (17 years x 12 months/year). The 20-year semiannual securitization assumed a 20-year recovery over 40 periods (20 years x 2 semiannual payments).

Witness: Franz D. Messner

Witness: Katrina Niehaus

VERIFICATION

The undersigned, Franz D. Messner, being duly sworn, deposes and says he is the Managing Director of Corporate Finance for American Electric Power Service Corporation, that he has personal knowledge of the matters set forth in the foregoing responses and the information contained therein is true and correct to the best of his information, knowledge, and belief.

[Handwritten Signature]

Franz D. Messner

County Franklin)
State of Ohio)

Case No. 2023-00159

Subscribed and sworn to before me, a Notary Public in and before said County and State, by Franz D. Messner, on October 11, 2023.

[Handwritten Signature]
Notary Public




My Commission Expires Never

Notary ID Number N/A

VERIFICATION

The undersigned, Katrina T. Niehaus, being duly sworn, deposes and says she is the Managing Director, Head of Corporate Asset Backed Securities Finance Group, for Goldman, Sachs and Company, that she has personal knowledge of the matters set forth in the foregoing testimony and the information contained therein is true and correct to the best of her information, knowledge, and belief after reasonable inquiry.



Katrina T. Niehaus

State of New York)
)
County of New York) Case No. 2023-00159

Subscribed and sworn to before me, a Notary Public in and before said County and State, by Katrina T. Niehaus, on October 19, 2023.



Notary Public

My Commission Expires 9-19-2026

Notary ID Number _____

<p>RITA VELAMISA Notary Public - State of New York No. 01VE6441147 Qualified in New York County My Commission Expires 09/19/2026</p>

VERIFICATION

The undersigned, Michael M. Spaeth, being duly sworn, deposes and says he is the Regulatory Pricing and Analysis Manager for American Electric Power Service Corporation, that he has personal knowledge of the matters set forth in the foregoing responses and the information contained therein is true and correct to the best of his information, knowledge, and belief.

[Signature]
Michael M. Spaeth

Franklin County)
Ohio)

Case No. 2023-00159

Subscribed and sworn to before me, a Notary Public in and before said County and State, by Michael M. Spaeth, on October 11 2023.

[Signature]
Notary Public



Paul D. Flory
Attorney At Law
Notary Public, State of Ohio
My commission has no expiration date
Sec. 147.03 R.C.

My Commission Expires Never

Notary ID Number No ID

VERIFICATION

The undersigned, Alex E. Vaughan, being duly sworn, deposes and says he is the Managing Director for Renewables and Fuel Strategy for American Electric Power Service Corporation, that he has personal knowledge of the matters set forth in the foregoing responses and the information contained therein is true and correct to the best of his information, knowledge, and belief.




Alex E. Vaughan

Franklin County)
Ohio)

Case No. 2023-00159

Subscribed and sworn to before me, a Notary Public in and before said County and State, by Alex E. Vaughan, on 10-18-23.



Notary Public

My Commission Expires No expiration

Notary ID Number See below



Matthew J. Satterwhite, Attorney At Law
NOTARY PUBLIC - STATE OF OHIO
My commission has no expiration date
Sec. 147.03 R.C.

