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MEMORANDUM

TO: Cities Served by AEP Texas Inc. ("Cities")

FROM: Thomas Brocato
Jamie Mauldin
Rick Arnett

DATE: April 6, 2023

RE: AEP – Distribution Cost Recovery Factor ("DCRF") filing

CONFIDENTIAL/ATTORNEY-CLIENT COMMUNICATION
CITY ACTION REQUIRED NO LATER THAN JUNE 2

On April 5, 2023, AEP Texas Inc. ("AEP") filed an Application to Amend its Distribution Cost Recovery Factor. In the filing, the Company is seeking an increase in distribution revenues of approximately \$39.7 million. This equals an approximately \$1.63 increase to the average residential customer's bill from the rates approved in the Company's most recent DCRF case. Moreover, in this filing, the Company is seeking to impose Rider Mobile TEEE Facilities ("Rider") to recover revenue related to mobile generation unit leasing and operation. The Rider would recover approximately \$30.67 million (an approximately \$1.30 increase to the average customer's bill).

Cities have engaged the services of a consultant, Mr. Karl Nalepa, to review the Company's filing. Mr. Nalepa will review the filing and identify adjustments that should be made to the Company's request. We are recommending that Cities deny the requested relief.

The Public Utility Commission's rules allow cities 60 days to act on this application. That deadline is June 2, 2023. **Accordingly, we request that each city schedule the draft resolution included with this memorandum for consideration at their next council meeting.**

If you have any concerns or question please do not hesitate to contact us. We appreciate your continued support.

MODEL STAFF REPORT REGARDING AEP TEXAS'S DISTRIBUTION COST RECOVERY FACTOR FILING

On April 5, 2023, AEP Texas Inc. ("AEP" or "Company") filed an Application to Amend its Distribution Cost Recovery Factor ("DCRF") to increase distribution rates within each of the cities in their service area. In the filing, the Company asserts that it is seeking an increase in distribution revenues of approximately \$39.7 million (an approximately \$1.63 increase to the average residential customer's bill from the rates approved in the Company's most recent DCRF case). Moreover, the Company is seeking to impose Rider Mobile TEEE Facilities ("Rider") to recover revenue related to mobile generation unit leasing and operation. The Rider would recover approximately \$30.67 million (an approximately \$1.30 increase to the average customer's bill).

The resolution authorizes the City to join with the Cities Served by AEP ("Cities") to evaluate the filing, determine whether the filing complies with law, and if lawful, to determine what further strategy, including settlement, to pursue.

Purpose of the Resolution:

The purpose of the Resolution is to deny the DCRF application proposed by AEP.

Explanation of "Be It Resolved" Paragraphs:

1. This section authorizes the City to participate with Cities as a party in the Company's DCRF filing, PUC Docket No. 54824.

2. This section authorizes the hiring of Lloyd Gosselink and consultants to review the filing, negotiate with the Company, and make recommendations to the City regarding reasonable rates. Additionally, it authorizes Cities to direct any necessary administrative proceedings or court litigation associated with an appeal of this application filed with the PUC.

3. This paragraph finds that the Company's application is unreasonable and should be denied.

4. This section states that the Company's current rates shall not be changed.

5. The Company will reimburse Cities for their reasonable rate case expenses. Legal counsel and consultants approved by Cities will submit monthly invoices that will be forwarded to AEP for reimbursement.

6. This section recites that the Resolution was passed at a meeting that was open to the public and that the consideration of the Resolution was properly noticed.

7. This section provides that AEP and counsel for Cities will be notified of the City's action by sending a copy of the approved and signed Resolution to counsel.

RESOLUTION NO. _____

**A RESOLUTION OF THE CITY OF _____,
TEXAS FINDING THAT AEP TEXAS INC.'S
APPLICATION TO AMEND ITS DISTRIBUTION COST
RECOVERY FACTORS TO INCREASE DISTRIBUTION
RATES WITHIN THE CITY SHOULD BE DENIED;
AUTHORIZING PARTICIPATION WITH THE CITIES
SERVED BY AEP TEXAS; AUTHORIZING HIRING OF
LEGAL COUNSEL; FINDING THAT THE CITY'S
REASONABLE RATE CASE EXPENSES SHALL BE
REIMBURSED BY THE COMPANY; FINDING THAT THE
MEETING AT WHICH THIS RESOLUTION IS PASSED IS
OPEN TO THE PUBLIC AS REQUIRED BY LAW;
REQUIRING NOTICE OF THIS RESOLUTION TO THE
COMPANY AND LEGAL COUNSEL.**

WHEREAS, the City of _____, Texas ("City") is an electric utility customer of AEP Texas Inc. ("AEP" or "Company"), and a regulatory authority with an interest in the rates and charges of AEP; and

WHEREAS, the City is a member of the Cities Served by AEP ("Cities"), a membership of similarly situated cities served by AEP that have joined together to efficiently and cost effectively review and respond to electric issues affecting rates charged in AEP's service area; and

WHEREAS, on or about April 5, 2023 AEP filed with the City an Application to Amend its Distribution Cost Recovery Factor ("DCRF"), PUC Docket No. 54824, seeking to increase electric distribution rates by approximately \$39.7 million (an approximately \$1.63 increase to the average residential customer's bill from the rates approved in the Company's most recent DCRF case) and impose a Rider Mobile TEEE Facilities to recover \$30.67 million (an approximately \$1.30 increase to the average residential customer's bill) related to mobile generation facilities; and

WHEREAS, all electric utility customers residing in the City will be impacted by this ratemaking proceeding if it is granted; and

WHEREAS, Cities are coordinating its review of AEP's DCRF filing with designated attorneys and consultants to resolve issues in the Company's application; and

WHEREAS, Cities members and attorneys recommend that members deny the DCRF.

NOW, THEREFORE, BE IT RESOLVED BY THE CITY COUNCIL OF THE CITY OF _____, TEXAS:

Section 1. That the City is authorized to participate with Cities in PUC Docket No. 54824.

Section 2. That subject to the right to terminate employment at any time, the City hereby authorizes the hiring of the law firm of Lloyd Gosselink and consultants to negotiate with the Company, make recommendations to the City regarding reasonable rates, and to direct any necessary administrative proceedings or court litigation associated with an appeal of this application filed with the PUC.

Section 3. That the rates proposed by AEP to be recovered through its DCRF and Rider Mobile TEEE Facilities charged to customers located within the City limits, are hereby found to be unreasonable and shall be denied.

Section 4. That the Company shall continue to charge its existing rates to customers within the City.

Section 5. That the City's reasonable rate case expenses shall be reimbursed in full by AEP within 30 days of presentation of an invoice to AEP.

Section 6. That it is hereby officially found and determined that the meeting at which this Resolution is passed is open to the public as required by law and the public notice of the time, place, and purpose of said meeting was given as required.

Section 7. That a copy of this Resolution shall be sent to Leila Melhem, American Electric Power Service Corporation, 400 West 15th Street, Suite 1520, Austin, Texas 78701 and to Thomas Brocato, General Counsel to the Cities, at Lloyd Gosselink Rochelle & Townsend, 816 Congress Ave., Suite 1900, Austin, Texas 78701.

PASSED AND APPROVED this _____ day of _____, 2023.

Mayor

ATTEST:

City Secretary

APPROVED AS TO FORM:

City Attorney