

LOUISIANA PUBLIC SERVICE COMMISSION

ORDER NUMBER U-36174-A

SOUTHWESTERN ELECTRIC POWER COMPANY, EX PARTE.

Docket No. U-36174, In re: Application for Recovery of Certain Storm Damage Costs Incurred as a Result of Hurricane Laura and Delta and the February 2021 Winter Storm Event, related securitization financing, establishment of a storm reserve, and for recovery of storm damage costs associated with the June 2023 storms.

(Decided at the June 19, 2024 Business and Executive Session.)

ORDER

I. BACKGROUND

On October 18, 2021, Southwestern Electric Power Company ("SWEPCO" or the "Company") filed an application ("Phase I Application") with the Louisiana Public Service Commission ("LPSC" or "Louisiana Commission") for authorization to recover expenses and costs related to three storm events – Hurricane Laura, Hurricane Delta, and Winter Storm Uri (the “Pre-2023 Storms”). Specifically, SWEPCO sought (1) a determination of prudence related to its distribution-related O&M expenses resulting from the Pre-2023 Storms; and (2) to begin interim recovery of the financing costs associated with those expenses, which had been booked by SWEPCO to a regulatory asset approved by prior Commission orders. Regarding its request for interim recovery in the Phase I Application, SWEPCO sought recovery of its financing costs for the Pre-2023 Storms, on an interim basis, at its full weighted average cost of capital (“WACC”). The parties reached a consensual resolution that was documented in a Joint Stipulation and Settlement Term Sheet executed by SWEPCO and the LPSC Staff (“Phase I Joint Stipulation”). On May 24, 2023, the LPSC issued Order No. U-36174 ("Phase I Order") approving the Phase I Joint Stipulation. The Phase I Order approved as prudent and recoverable \$180,225,383 of distribution and transmission O&M costs - SWEPCO's LPSC-jurisdictional share. That settlement order also required SWEPCO to submit a Phase II filing analyzing the prudence of the capital costs and any unexamined O&M costs. In addition, SWEPCO was required to analyze the benefits of traditional rate recovery versus securitization of the approved storm restoration costs. SWEPCO was allowed carrying costs at a 3.125% rate on the approved costs as an interim recovery beginning May 2023.

SWEPCO made its Phase II filing on July 31, 2023. It sought recovery of the capital costs associated with Laura, Delta and Winter Storm Uri, recovery of expenses associated with some

June 2023 storms that caused significant distribution damage in SWEPCO's service territory, interim recovery of carrying costs associated with the deferred expenses and capital costs associated with the Laura, Delta, Uri and the June 2023 storms, and it sought final recovery of those amounts through securitization, plus \$150 million for a storm reserve, a portion of which (about \$45 million) was to be used to recover the costs of the June 2023 storms.

Staff analyzed the Phase II request, supporting testimony and discovery and determined that the requested capital costs associated with Laura/Delta/Uri were prudently incurred and eligible for recovery. Staff opposed SWEPCO's carrying cost increase request for the Pre-2023 Storms. Staff agreed with SWEPCO's analysis showing that the benefits of securitization were reasonable, and that ratepayers would receive benefits compared to traditional ratemaking. Assuming a 5.125% interest rate for the storm bonds, it is estimated that ratepayers would save about \$53.6 million on a net present value basis over the life of the bonds versus traditional financing at SWEPCO's Weighted Average cost of Capital ("WACC"). Even if interest rates on the securitization bonds are as high as 7.25% ratepayers would save about \$10.4 million. Staff also found the requested storm reserve of \$150 million, about \$45 million of which would be used to fund the estimated expenses of the June 2023 storms, to be reasonable and consistent with reserves allowed to other LPSC regulated investor-owned utilities.

Staff and SWEPCO reached a stipulated settlement on all issues in the Phase II proceeding dated April 24, 2024. That settlement addresses the capital cost of Laura/Delta/Uri, the creation of a storm reserve with a portion of the securitized funds, and the use of a portion of that reserve for the June 2023 storms, subject to a future true-up and prudence review. That settlement, if approved, would allow SWEPCO to securitize \$343 million, including the requested \$150 million Storm Reserve.

On April 24, 2024, SWEPCO and Staff filed an "Unopposed Joint Motion for Scheduling of Hearing on Uncontested Settlement Pursuant to Rule 6 and Request for Waiver of Ten Day Rule" pursuant to Rule 6 of the Commission's Rules of Practices and Procedures. That Joint Motion had attached the "Joint Stipulation and Settlement Term Sheet," the "Affidavit of Thomas P. Brice" on behalf of the Company, and the "Phase II Settlement Testimony of Jonathan R. Bourg" submitted on behalf of the Commission Staff. A stipulation hearing was held on May 3, 2024 before the

Hon. Joy Guillot, Administrative Law Judge, who issued a "Report of Proceedings and Submission of Stipulation for Consideration by Commissioners" dated May 6, 2024.

II. JURISDICTION

The Commission exercises jurisdiction over common carriers and public utilities in Louisiana pursuant to Article IV, section 21 (B) of the Louisiana Constitution of 1974, which states:

The commission shall regulate all common carriers and public utilities and have such other regulatory authority as allowed by law. It shall adopt and enforce reasonable rules, regulations, and procedures necessary for the discharge of its duties, and shall have other powers and perform other duties as provided by law.

III. UNCONTESTED STIPULATED SETTLEMENT

The Uncontested Stipulated Settlement resolves all issue in Phase II of this proceeding and all issues remaining in Phase I. The terms of the Uncontested Stipulated Settlement are as follows:

1. SWEPCO's Phase II analysis submitted in this proceeding included an analysis of the prudence of all Louisiana-jurisdictional transmission and distribution capital costs associated with Hurricanes Laura and Delta, and Winter Storm Uri ("Pre-2023 Storms")
2. Based on the analyses performed, the distribution and transmission capital portion of \$30,094,841 of SWEPCO's LPSC-jurisdictional \$180,225,383 of costs associated with the Pre-2023 Storms, Hurricanes Laura and Delta, and Winter Storm Uri, are reasonable and prudent and eligible for recovery.¹
3. SWEPCO's Phase II filing in this proceeding also included an analysis of the storm costs associated with the extreme weather incurred during the June 2023 storms as well as the a request for additional funds to be securitized for reserves for future storm costs that cost above \$1 million (the "Storm Reserve"). Collectively those two items total \$149.9 million. Approximately \$45 million of this Storm reserve shall be used to fund the estimated costs and expenses of the June 2023 Storms, with the remaining Storm Reserve funds (approximately \$105 million) to be used to recover the costs of future storms meeting the eligibility requirements. The eligibility requirements for accessing the Storm Reserves include a storm restoration event that costs more then \$1 million (capital and expenses combined) and a requirement to provide written notice to the LPSC Executive Secretary and Executive Counsel of SWEPCO's intent to withdraw funds from the Storm Reserve, which describes the weather event and the amount of funds proposed to be withdrawn. The LPSC Executive Secretary would then be given a reasonable amount of time to issue an approval or deficiency letter to SWEPCO. Nothing in this Joint Stipulation is intended to modify the requirements of Commission Order No. U-35441. In addition, the Executive Secretary approval of withdrawal from the Storm Reserve shall not impair the Commission's ability to later review the prudence of the storm costs incurred that prompted the withdrawal from the Storm Reserve. For storm expenses equal to or exceeding \$15 million (capital and expenses combined), SWEPCO shall be required to initiate a prudence review within 60 days after the withdrawal request in a separately docketed proceeding. For the June 2023 Storms, SWEPCO shall be required to initiate a prudence review within 60 days after the issuance of a Commission Order approving this Joint Stipulation. Storms with costs less than \$15 million would be subject to a prudence review in SWEPCO's first rate review of FRP proceeding after the withdrawal request is approved.

¹ The O&M portion of these costs was already deemed prudent and recoverable in the Order approving the Phase I settlement in this proceeding, LPSC Order No. U-36174 (May 24, 2023).

4. It is reasonable for SWEPCO to include the segregated amount of pre-funded Storm Reserve on its balance sheet as a liability versus depositing the funds in a separate bank account in order to save administrative costs and to provide to customers the incremental growth on the reserve that shall accumulate at the AEP Utility Money Pool rate. These funds shall be separately maintained and accounted for on SWEPCO's balance sheet, the accounting record shall be maintained in a clear and consistent manner, and the funds protected from SWEPCO's creditors.
5. The Phase II application included an analysis comparing securitization versus traditional rate recovery of all Louisiana distribution and allocated transmission O&M expenses and capital costs (hereinafter "Storm Damage Costs"). That analysis determined that securitization is the most cost-effective option for customers.
6. SWEPCO's request to the Commission seeking securitization of these costs, targeted to be completed by the third quarter of 2024, pursuant to the Louisiana Electric Utility Storm Securitization Act, La. R.S. 45:1226 et seq. and/or any other then-applicable law, is determined to be reasonable and prudent.
7. The Terms and Conditions of SWEPCO's proposed Financing Order comply with the requirements of the Securitization Act. In addition, the proposed Financing Order provides for flexibility in the marketing, structuring, and pricing of the bonds, and mitigates risks to SWEPCO's Louisiana customers.
8. SWEPCO shall remove straight-time internal labor and the loaders (also known as "Fringes"), from the securitization costs associated with the June 2023 storms; however, the reduction will reduce only the costs of the June 2023 storms and not the overall amount of Storm Reserve costs to be securitized of \$149.9 million.
9. SWEPCO shall include the associated Accumulated Deferred Income Taxes (ADIT) of the Storm Damage Costs in its Formula Rate Plan. Those costs should be considered "outside the band" for the purposes of calculating the revenue requirement. SWEPCO's Louisiana-jurisdictional customers shall receive 100 percent of the ADIT offset.
10. SWEPCO shall implement a rider mechanism, to be designated as a line item on customer bills with the title of, "Financed Storm Cost Rider" with the goal of implementing that rider mechanism beginning no later than the first billing cycle of the month following the date of the issuance of the bonds.
11. SWEPCO's carrying costs on Storm Damage Costs resulting from Hurricanes Laura and Delta, and Winter Storm Uri shall continue to be calculated at 3.125% until the issuance of the bonds. Additional carrying costs from April 1, 2024, and beyond shall be collected through the securitization proceeds. If SWEPCO fails to close the securitization transaction prior to January 1, 2025, additional carrying costs shall not accrue beyond December 31, 2024 without specific LPSC approval of the right to recover and the carrying charge rate to be utilized for that recovery.
12. SWEPCO's carrying costs on Storm Damage Costs resulting from the June 2023 storms shall be calculated at 5.65% from July 1, 2023 and until the issuance of the bonds. The entirety of the June 2023 storm carrying costs shall be collected through the securitization proceeds. If SWEPCO fails to close the securitization transaction prior to January 1, 2025, additional carrying costs shall not accrue beyond December 31, 2024 without specific LPSC approval of the right to recover and the carrying charge rate to be utilized for that recovery.
13. SWEPCO shall true up the carrying costs of the Storm Damage Costs for the Hurricanes Laura and Delta, and Winter Storm Uri and the June 2023 storms at the time the bonds are issued.
14. In total, the amount to be securitized shall be as follows²:

² The estimated upfront transaction costs will be finalized consistent with the approved Finance Order and reflected in the Issuance Advice Letter.

Item	Amount (\$ million)
Hurricanes Laura and Delta, and Winter Storm Uri	\$180.1
June 2023 Storms + Storm Reserve	\$149.9
Upfront Transaction Costs	\$6.6
On-going Carrying Costs	\$6.4
Carrying Cost True-Up	TBD
TOTAL	\$343.0

15. General Reservations

The Settling Parties represent and agree that, except as specifically otherwise provided herein:

- a) This Joint Stipulation and Settlement Term Sheet represents negotiated settlement for the purposes of settling all issues that were raised relating to this Phase II proceeding.
- b) Each of the undersigned counsel of record affirmatively represents that he or she has full authority to execute this Joint Stipulation and Settlement Term Sheet on behalf of their client(s).
- c) None of the signatories hereto shall be prejudiced or bound by the terms of the Joint Stipulation and Settlement Term Sheet in the event the Commission does not approve this Joint Stipulation and Settlement Term Sheet nor shall any of the Settling Parties be prejudiced or bound by the terms of this Joint Stipulation and Settlement Term Sheet should any appeal of a Commission order adopting this Joint Stipulation and Settlement Term Sheet be filed with the courts and any Order of the Commission approving this Joint Stipulation reversed.
- d) Except as expressly stated herein, this Stipulated Settlement has no precedential effect in any other proceeding and will be without prejudice to the right of any party to take any position in future proceedings. The terms of this Stipulation may not be used either as an admission of any sort or as evidence in any proceeding whatsoever, except to approve or enforce the terms of this Stipulation. All oral or written statements made during the course of settlement negotiations are governed by Louisiana Code of Evidence Article 408.
- e) The Settling Parties agree that the provisions of this Joint Stipulation and Settlement Term Sheet are the result of extensive negotiations, and the terms and conditions of this Joint Stipulation and Settlement Term Sheet are interdependent. The Settling Parties agree that settling the issues in this Joint Stipulation and Settlement Term Sheet is in the public interest and, for that reason, they have entered into this Joint Stipulation and Settlement Term Sheet order consistent with this Joint Stipulation and Settlement Term Sheet, will be binding as to the matters decided regarding the issues described in this Joint Stipulation and Settlement Term Sheet, but the decision will not be binding with respect to similar issues that might arise in other proceedings. A Settling Party's support of this Joint Stipulation and Settlement Term Sheet may differ from its position or testimony in other dockets. To the extent there is a difference, the Settling Parties are under no obligation to take the same position as set out in this Joint Stipulation and Settlement Term Sheet in other dockets to settle among themselves the issues in this Joint Stipulation and Settlement Term Sheet. This Joint Stipulation and Settlement Term Sheet shall not constitute nor be cited as a precedent nor deemed an admission by any Settling Party in any other proceeding except as necessary to enforce its terms before the Commission or any state court of competent jurisdiction. The Commission's decision, if it enters an order consistent with this Joint Stipulation and Settlement Term Sheet, will be binding as to the matters decided regarding the issues described in this Joint Stipulation and Settlement Term Sheet, but the decision will not be binding with respect to similar issues that might arise in other proceedings. A Settling Party's support of this Joint Stipulation and Settlement Term Sheet may differ from its position or testimony in other dockets. To the extent there is a difference, the Settling Parties are under no obligation to take the same position as set out in this Joint Stipulation and Settlement Term Sheet in other dockets.
- f) Nothing in this Joint Stipulation is intended to modify the LPSC Order No. U-36174 (May 24, 2023).

IV. COMMISSION CONSIDERATION

The Uncontested Stipulated Settlement was considered by the Commission at its June 20, 2024 Business and Executive Session. After discussion, on the motion of Commissioner Skrmetta, seconded by Commissioner Greene, the Commission unanimously voted to accept the Uncontested Stipulated Settlement filed into the record on April 24, 2024.

IT IS THEREFORE ORDERED THAT:

- 1. The Uncontested Stipulated Settlement filed into the record on April 24, 2024 is hereby accepted by the Commission; and,
- 2. This Order shall be effective immediately.

BY ORDER OF THE COMMISSION
BATON ROUGE, LOUISIANA
July 3, 2024



A handwritten signature in blue ink, appearing to read "Brandon M. Frey".

BRANDON M. FREY
SECRETARY

/S/ MIKE FRANCIS
DISTRICT IV
CHAIRMAN MIKE FRANCIS

/S/ DAVANTE LEWIS
DISTRICT III
VICE CHAIRMAN DAVANTE LEWIS

/S/ FOSTER L. CAMPBELL
DISTRICT V
COMMISSIONER FOSTER L. CAMPBELL

/S/ ERIC F. SKRMETTA
DISTRICT I
COMMISSIONER ERIC F. SKRMETTA

/S/ CRAIG GREENE
DISTRICT II
COMMISSIONER CRAIG GREENE