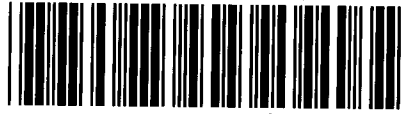




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APPLICATION OF AEP TEXAS § **PUBLIC UTILITY COMMISSION**
CENTRAL COMPANY, AEP TEXAS § **OF TEXAS**
NORTH COMPANY, AND AEP § **FILING CLERK**
UTILITIES, INC., FOR APPROVAL OF §
MERGER §

ORDER

This Order addresses the application of AEP Texas Central Company (TCC), AEP Texas North Company (TNC), and AEP Utilities, Inc. (AEP Utilities) (collectively, the applicants) for a public interest determination and related approvals regarding their proposed merger. The applicants' application for approval of the proposed merger is approved as consistent with the public interest.

On October 19, 2016, the State Office of Administrative Hearings (SOAH) administrative law judge (ALJ) issued a proposal for decision (PFD) recommending that the Commission find that the proposed merger is consistent with the public interest if certain conditions are imposed. On November 9, 2016, the SOAH ALJ filed a letter recommending a modification to the proposed language in ordering paragraph 5. The Commission adopts the PFD as modified by the SOAH ALJ's letter of correction, including findings of fact and conclusions of law, except as provided by this Order.

The Commission finds that AEP Texas should be required to prepare a study at least four months in advance of filing a system-wide rate case. To reflect that determination, the Commission adds new finding of fact 78A. The Commission also makes non-substantive changes to findings of fact and conclusions of law for such matters as capitalization, spelling, punctuation, style, grammar, and readability.

The Commission adopts the following findings of fact and conclusions of law:

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I. Findings of Fact

Procedural History

1. AEP Texas Central Company (TCC) and AEP Texas North Company (TNC) are Texas corporations providing transmission and distribution service to retail electric providers (REPs) within portions of the Electric Reliability Council of Texas (ERCOT) region of Texas. TCC and TNC provide these services to over one million meters located in nearly 400 communities in all or parts of 93 counties in the south and west Texas regions.
2. AEP Utilities, Inc. is a Delaware corporation that is the immediate parent company of TCC and TNC. TCC, TNC and AEP Utilities are wholly owned subsidiaries of American Electric Power Company, Inc. (AEP).
3. On June 15, 2016, TCC, TNC, and AEP Utilities (collectively, the applicants) filed an application with the Commission for a public interest determination and related approvals regarding their proposal to merge TCC and TNC into their parent company, AEP Utilities, which will change its name to AEP Texas Inc. (AEP Texas).
4. On June 16, 2016, the Commission issued Order No. 1, which established the deadline to intervene, required Commission Staff to file its comments and recommendations on the sufficiency of the applicants' proposed notice and sufficiency of the application, and granted the applicants' request for adoption of a protective order.
5. On June 23, 2016, the Commission referred this case to the State Office of Administrative Hearings (SOAH).
6. On June 27, 2016, Commission Staff filed its recommendation as required by Order No. 1, deeming the application sufficient for review on the merits and the applicants' proposed notice sufficient.
7. On July 1, 2016, in SOAH Order No. 1, the administrative law judge (ALJ) found the applicants' application and proposed notice to be sufficient.
8. On July 19, 2016, in SOAH Order No. 2, the ALJ provided notice of the hearing and granted intervenor status to Golden Spread Electric Cooperative, Inc., the Office of Public

Utility Counsel, South Texas Electric Cooperative, Inc., and Texas Industrial Energy Consumers (TIEC). Commission Staff also participated in this proceeding.

9. In SOAH Order No. 3 issued August 16, 2016, the ALJ granted intervenor status to the City of McAllen.
10. On July 20, 2016, the Commission issued a preliminary order, identifying issues to be addressed in this proceeding.
11. Prior to the commencement of the hearing on the merits, on August 24, 2016, Golden Spread Electric Cooperative, Inc. appeared and announced on the record that it was withdrawing from the case.
12. The hearing on the merits commenced and concluded on August 24, 2016.
13. Initial post-hearing briefs were filed on September 2, 2016, and reply briefs and proposed findings and conclusions were filed on September 12, 2016.

Notice

14. The applicants provided notice of their application to all municipalities within the service areas of TCC and TNC; all neighboring utilities that do not operate in the ERCOT region; all parties to TCC's and TNC's most recent base-rate cases and distribution cost recovery factor (DCRF) cases; the transmission owners listed in *Commission Staff's Application to Set 2016 Wholesale Transmission Service Charges for the Electric Reliability Council of Texas*, Docket No. 45382 (Mar. 26, 2016), which established the 2016 wholesale transmission service charges for the ERCOT region; and all REPs listed on the Commission's website at the time of filing.
15. Notice was completed on June 17, 2016.
16. Notice of the application was also published in the *Texas Register* on July 1, 2016.

Description and Rationale for Merger Transaction

17. The proposed merger is a legal entity reorganization among affiliated entities, with no compensation among the parties to the merger.

18. TCC and TNC are currently separate legal entities and transmission and distribution utilities operating in ERCOT. However, these companies are managed and operated, to a great extent, as a single business under the brand name "AEP Texas."
19. TCC and TNC already reflect the cost profile resulting from joint management and operations that have been in place for some time. Therefore, there are minimal costs to achieve the merger and minimal synergy savings resulting from it.
20. Applicants will not seek recovery of the costs to achieve the merger in transmission and distribution rates.
21. To accomplish the merger, TCC and TNC will each separately be merged into their parent corporation, AEP Utilities, an existing AEP affiliate that is the first tier subsidiary between TCC and TNC and AEP, their ultimate owner. In one of the mergers, AEP Utilities will change its name to AEP Texas Inc. All of the rights, interests, responsibilities and obligations of TCC and TNC will be merged into the surviving entity.
22. After the merger is consummated, AEP Texas will establish TCC and TNC divisions with the merged utility and will continue to maintain separate rates, riders, and tariff manuals for TCC and TNC within those divisions, unless and until the Commission approves consolidated rates.
23. The applicants are not proposing any change in their current business-unit accounting as a result of the merger. Separate accounting ledgers will be maintained for the TCC and TNC divisions as long as is appropriate, which will allow for costs to be captured in the same manner as currently and for rates to be maintained separately for each division.
24. The applicants will maintain separate TCC and TNC depreciation rates for as long as necessary after the merger.
25. The merger will not alter the manner in which American Electric Power Service Corporation bills affiliate charges to the various AEP business units, including AEP Texas.
26. AEP Texas will continue to include TCC and TNC divisional information in its Commission filings as appropriate.

27. AEP Texas will continue to maintain separate certificates of convenience and necessity (CCNs) for the TNC and TCC divisions and CCN filings will continue to be handled in the same manner as currently.
28. The merger will not result in any change in the way in which customer complaints are submitted to the Commission.
29. The merger will not affect the transition charges or nuclear-decommissioning-fee charges assessed only to TCC customers per the requirements of the Public Utility Regulatory Act.
30. The merger will not have any adverse impacts on REPs.
31. After the merger, among the instances wherein a single financial report will be filed by AEP Texas are the Federal Energy Regulatory Commission Form 1 and the Commission Earnings Monitoring Report.
32. The merger will allow TCC and TNC to issue one set of financing instruments as AEP Texas.
33. The merger will create a bigger and stronger financial platform from which to access financial markets, which will support the continued and increasing investment in the transmission and distribution grid needed to provide reliable service to customers.
34. The merger allows the elimination of duplication in the production of financial statements currently filed by TCC and TNC.
35. The elimination of duplication of financial statements will conserve the resources of TCC and TNC, as well as those other parties in the review of such filings.
36. The merger will promote efficiency in regulatory filings (eliminating and consolidating filings), thereby conserving resources of AEP Texas, the Commission, and other parties that participate in regulatory proceedings.

Merger Benefits, Savings, and Costs

37. The proposed merger of TCC and TNC will result in three primary benefits for the Companies and their customers: (a) improved access to financing, (b) efficiencies in financial reporting, and (c) efficiencies in regulatory filings.

Access to Financing

38. The proposed merger will create a bigger and stronger financial platform from which to access financial markets, which will support the continued and increasing investment in the AEP Texas transmission and distribution assets needed to provide reliable service to customers.
39. On completion of the merger, AEP Texas will be better positioned to source capital across the entire capital market spectrum, including both the public and private placement markets.
40. By conducting fewer debt issuances than TCC or TNC would conduct individually, AEP Texas will incur fewer debt-issuance costs, such as accountant, consultant, and attorney fees. AEP Texas will save approximately \$700,000 in reduced issuance costs, or approximately the annual debt-issuance costs incurred by TNC.
41. To ensure that customers benefit from reduced debt-issuance cost, AEP Texas should be required to provide merger credits equal to 90% of the expected savings, or \$630,000, per year from the date of the merger until the effective date of its next base-rate proceeding.
42. While AEP Texas is projected to make significant capital expenditures in the next several years, the size and timing of debt offerings could vary, depending on cash flow from operations, the ability to execute the forecasted capital plan, and the level of short-term debt.
43. By conducting larger debt issuances on the public debt markets, AEP Texas is expected to obtain interest rates that are 15-25 basis points lower than TCC or TNC can currently obtain on the private debt markets.
44. To ensure that customers benefit from this reduced debt-issuance cost, AEP Texas should be required to provide merger credits equal to 90% of the interest-rate savings that result from assuming the achievement of a 20-basis point reduction on all debt issuances between the date of the merger and the effective date of AEP Texas's next base-rate case.
45. Securities and Exchange Commission (SEC) registration is not a condition or cost of the proposed merger. The cost of registering with the SEC is a cost of accessing financing.

46. There is no reasonable basis to foreclose AEP Texas's future recovery of SEC registration costs as a condition to the proposed merger.

Efficiencies in Financial Reporting and Regulatory Filings

47. The proposed merger will allow the elimination of duplication in the production of financial statements filed by TCC and TNC and efficiencies in regulatory filings through the elimination and consolidation of filings.
48. Over time, both of these effects will conserve the resources of AEP Texas and those parties that review these filings, including the Commission.
49. Reduced rate-case expenses associated with the elimination and consolidation of filings will be passed on to customers through lower rate-case-expense riders in appropriate instances or in the form of lower costs in future rate proceedings.
50. No reasonable basis exists to condition the proposed merger on foregoing these efficiencies.
51. TIEC's proposal to condition the proposed merger on a guarantee of \$250,000 per year savings for regulatory filings lacks credible evidentiary support.
52. In the short term, AEP Texas will need to continue to provide reporting on a TCC and TNC divisional basis in a number of reports.

Application of Statutory Standard

53. The benefits of the proposed merger will be achieved over time, as AEP Texas invests in its transmission and distribution assets, issues debt as a consolidated entity, and consolidates and eliminates financial reporting and regulatory filings when appropriate to do so.
54. AEP Texas has agreed that it will not seek recovery of the direct costs to achieve the proposed merger.
55. There is no credible evidence that the proposed merger will adversely affect the reliability, availability, or cost of service.
56. The legal combination of TCC and TNC, as proposed by the applicants, is in the public interest.

Merger Impact on Service

57. The proposed merger will not affect the delivery, reliability, or availability of electric services or lead to a decline of such services to customers of TCC and TNC.
58. The operations of TCC and TNC are jointly managed via functional organizations that execute the planning, engineering and design, construction, and operations of those entities' transmission and distribution grid.
59. AEP Texas will continue to be operated and managed as a single entity, as is the case to a large extent for TCC and TNC today, including outage restoration at all levels.
60. The merger is designed to preserve the current management and operation of TCC and TNC, albeit under a different legal entity structure.
61. It is reasonable, as proposed by Commission Staff and not opposed by the applicants, that TCC's and TNC's current separate system-average-frequency-index (SAIFI) and system-average-duration-index (SAIDI) benchmarks be combined into a single AEP Texas system-wide SAIDI and SAIFI values. Combination of the separate standards will advance the merger's goal of increasing efficiency in regulatory reporting.
62. Commission Staff's proposed SAIDI and SAIFI performance standard is not supported by evidence, the Commission's rules, or Commission precedent.
63. The proposed merger does not involve the combination of a Commission-regulated company with an unaffiliated company that can raise questions about the unaffiliated company's ability to provide service, changes in the merged entity's provision of service, or the potential synergies of the combined system that motivated the proposed merger.
64. Adoption of Commission Staff's proposed additional SAIDI and SAIFI performance standard as a reliability metric is not necessary as a condition of the merger, since the merger will not result in any change in the manner in which the two utilities are currently operated and managed.
65. The proposed merger is designed to conform the legal structure of AEP Texas with its existing organizational and operational form.

66. There is no change in control or change in the provision of service that will take place because of the proposed merger.

Other Public Interest Factors

67. All of the rights, responsibilities, and obligations of TCC and TNC will be merged into the surviving entity, AEP Texas.
68. All of the assets and debts of TCC and TNC will be merged into the surviving entity, AEP Texas.
69. The consolidated balance sheet and income statement of TCC and TNC will become that of AEP Texas.
70. The merger will not alter the status of TNC's ownership interest in the Oklahoma generating unit or certain mothballed power plants.
71. The special purpose entities that were established for the three securitization transactions that TCC entered into as part of its transition to competition will continue as subsidiaries of the surviving entity, AEP Texas.
72. No payment of consideration will occur, or is required, as a result of this transaction because the transaction is a merger of two affiliated entities with one common owner.
73. The merger will not adversely affect the health or safety of either the customers or employees of TCC or TNC.
74. There will be neither a transfer of jobs from Texas to other states nor a downsizing or restructuring that will cause a reduction in personnel as a result of the merger.

Additional Merger Conditions

75. Consistent with the application, it is reasonable for the future TCC and TNC divisions of AEP Texas to maintain separate base rates, DCRF, energy efficiency cost recovery factors, transmission cost of service factors and other rates until such time as the Commission may consider and approve rate consolidation.
76. It is premature and unnecessary at this time to address, or to preclude the applicants from recovering, future rate-case expenses associated with any proposal to consolidate TCC and

TNC rates. The reasonableness and necessity of rate-case expenses and their recovery should be addressed at the time recovery is requested.

77. It is premature and unnecessary at this time to address the extent to which a future proposal to consolidate TCC and TNC may or may not create subsidies. Applicants do not propose that any decisions about the future consolidation of TCC and TNC rates be made in this proceeding, and no such decisions are being made.
78. Consummation of the merger transaction will have no effect on the status quo regarding Federal Energy Regulatory Commission (FERC) jurisdiction over TCC and TNC wholesale transmission rates in ERCOT.
- 78A. It is reasonable to require AEP Texas to file a proposal for setting system-wide rates, along with an underlying study and supporting data, at least four months prior to filing a case proposing system-wide rates with the Commission.

Other Issues

PURA § 39.051

79. As a result of the proposed merger, AEP Texas will step into the shoes of TNC regarding ownership of the Oklaunion generating facility and the associated liabilities, contractual rights, and contractual obligations.
80. AEP Texas will continue to meet the statutory requirements for ownership of an interest in Oklaunion under PURA § 39.051(c) after the merger.
81. Nothing in the proposed merger transaction will alter the status of the Oklaunion generating facility, or compliance with the requirements of PURA § 39.051, once AEP Texas succeeds to its ownership.

PURA § 37.154

82. Upon consummation of the merger, the ownership interests and rights and obligations of TCC and TNC under their certificates of convenience and necessity (CCNs) pass to AEP Texas as a matter of law and not as the result of a sale, assignment, or lease.
83. AEP Texas will be able to provide adequate service to end use customers following the merger.

84. To preserve separate TCC and TNC divisions for purposes of Commission rate setting and regulatory oversight after the merger, it is reasonable that AEP Texas maintain separate CCNs for the TCC and TNC divisions that will be formed pursuant to the merger.

II. Conclusions of Law

1. TCC and TNC are electric utilities as defined by Texas Utilities Code (PURA) § 31.002(6), transmission and distribution utilities (TDUs) as defined by PURA § 31.002(19), and public utilities as defined by PURA § 11.004.
2. AEP Texas will be an electric utility as defined by PURA § 31.002(6), a TDU as defined by PURA § 31.002(19), and a public utility as defined by PURA § 11.004.
3. The Commission has jurisdiction over this proceeding under PURA §§ 14.001, 14.101 and 39.915 and 16 Texas Administrative Code (TAC) § 25.74(a) and (b).
4. SOAH has jurisdiction over this proceeding under PURA § 14.053 and Texas Government Code § 2003.049.
5. This docket was processed in accordance with the requirements of PURA, the Administrative Procedure Act, Tex. Gov't Code §§ 2001.001-902 (West 2016 and Supp. 2016), and Commission rules.
6. Notice of the merger at issue in this proceeding and the events in this docket was provided as required by 16 TAC § 22.55.
7. The proposed merger transaction is in the public interest under PURA §§ 14.101 and 39.915.
8. AEP Texas ownership of the Oklahoma generating facility subsequent to the consummation of the merger is authorized by PURA § 39.051(c).
9. The proposed merger does not result in a sale, transfer, or assignment of CCNs and, therefore, PURA § 37.154 compliance is unnecessary. *Application of Century Telephone Enterprises, Inc.*, Docket No. 3304, 6 P.U.C. Bull. 68 (Sept. 11, 1980).
10. Combination of the existing TCC and TNC service metrics into system-wide AEP Texas SAIDI and SAIFI values benchmarks is consistent with 16 TAC § 25.52.

III. Ordering Paragraphs

In accordance with these findings of fact and conclusions of law, the Commission issues the following orders:

1. The applicants' application for approval of the proposed merger is granted as consistent with the public interest.
2. Applicants shall maintain separate TCC and TNC divisions, which will continue to charge separate rates and riders, and maintain separate tariffs, unless and until such time as the Commission may consider and approve consolidated rates and tariffs.
3. As a condition of approval for this transaction, AEP Texas is ordered to provide rate credits to its customers. AEP Texas shall provide set rate credits of \$630,000 per year to account for savings stemming from lower debt-issuance costs. AEP Texas shall also submit a yearly compliance filing detailing the amount of debt it issued in the prior year. AEP Texas shall then provide its customers with an additional rate credit equal to 90% of 0.2% of that total debt issuance. These credits will terminate on the effective date of AEP Texas's next base-rate case. Any rate credits awarded as a result of this order shall be divided between AEP Texas's existing TCC and TNC customers based on asset allocation.
4. Applicants shall combine the current TCC and TNC SAIDI and SAIFI statistics into a single AEP Texas metric; consistent with the recommendation of Staff in this proceeding.
5. As a condition of approval for this transaction, the applicants shall reaffirm the commitments made in Section 4(i) of the Integrated Stipulation Agreement in *Application of Central and South West Corporations and American Electric Power Company, Inc. Regarding Proposed Business Combination*, Docket No. 19265 (Nov. 18, 1999). AEP Texas will continue to file rates for transmission services at FERC in accordance with ERCOT regional pricing and terms and conditions as established by the Commission so long as AEP Texas is a member of ERCOT or until such time as ERCOT is no longer subject to the jurisdiction of the Commission. AEP Texas will comply with PURA, all other applicable statutes, and the Commission's rules, including transmission cost of service allocations. Additionally, AEP Texas will continue to make transmission cost of service filings with the Commission in accordance with the Commission's rules and

procedures. The Commission will determine AEP Texas transmission cost of service in accordance with PURA and its rules. With regard to transmission rate filings at FERC, AEP Texas will submit and support the results of the Commission's orders regarding AEP Texas's transmission cost of service.

6. AEP Texas shall file a proposal for setting system-wide rates, along with an underlying study and supporting data, at least four months prior to filing a case proposing system-wide rates with the Commission.
7. All other motions, requests for entry of specific findings of fact and conclusions of law, and any other requests for general or specific relief, if not expressly granted, are denied.

Signed at Austin, Texas the 12th day of December 2016.

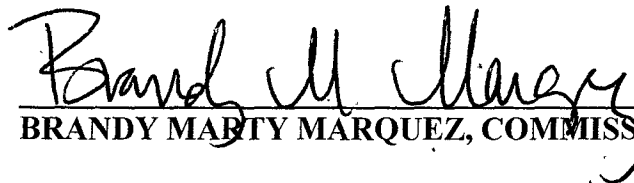
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