AGENDA INFORMATION SHEET
ITEM NO. _____

AUTHORIZATION TO INTERVENE IN PROCEEDINGS BEFORE THE PUBLIC UTILITY COMMISSION OF TEXAS AND RELATED PROCEEDINGS REGARDNG PROPOSED INCREASES IN RATES BY SOUTHWESTERN ELECTRIC POWER COMPANY

BACKGROUND

On March 16, 2016, Southwestern Electric Power Company (SWEPCO) filed an application with the Public Utility Commission of Texas (PUCT) for approval to amend its Transmission Cost Recovery Factor (TCRF). SWEPCO also filed with the PUCT *and* the City an application to implement a Distribution Cost Recovery Factor (DCRF). The PUCT has exclusive jurisdiction over SWEPCO's application to amend its TCRF rates. The City has exclusive original jurisdiction over SWEPCO's DCRF rates within the City.

Both the TCRF and a DCRF are cost recovery mechanisms that allow SWEPCO the opportunity to recover, outside of the context of a full base rate case, its reasonable and necessary transmission and distribution related costs that are not already being recovered through its current rates.

PUCT DOCKET NO. 45691 - TCRF:

SWEPCO requests that the Public Utility Commission of Texas approve an increase of approximately $4.9 million from Texas retail customers to be recovered through SWEPCO's proposed TCRF. A residential customer using an average of 1,220 kWh per month would see an increase of about $1.12 in their monthly bill if SWEPCO's full request were approved.

Compared to the revenue currently being recovered through SWEPCO's TCRF, the $4.9 million increase represents and increase of about 12.5% in TCRF revenue.

PUCT DOCKET NO. 45712 - DCRF:

SWEPCO's also proposes an increase in revenue of about $9.2 million to be recovered through its proposed Distribution Cost Recovery Factor ("DCRF"). The bill impact of the DCRF on an average residential customer using 1,220 kWh per month would be about $2.12 over a customer's base rates.

Compared to the revenue currently being recovered through SWEPCO's base rates, the $9.2 million increase represents and increase of about 20.7% in revenue related to "Distribution" costs.

This is the first time SWEPCO has filed a DCRF. A DCRF permits SWEPCO to include in its rates distribution investment that occurred after the conclusion of its most recent comprehensive base rate case, Docket No. 40443. SWEPCO's DCRF Application includes distribution investments and related expenses since December 31, 2011.

A DCRF filing is a streamlined single-issue proceeding outside of a comprehensive base rate case and is designed to move quickly and for parties to have limited review.

TCRF AND DCRF COMBINED INCREASES IN RATES:

Combined, SWEPCO's proposed change in rates would increase SWEPCO's revenue by about $14.1 million. This increase in revenue would increase a residential customer's bill using 1,220 kWh per month by about $3.24 over current base rates. The $14.1 million represents an increase of about 4.4% over SWEPCO's base-rate revenue.

REPRESENTATION AND PARTICIPATION IN CARD:

The law firm of Herrera & Boyle, PLLC (through Mr. Alfred R. Herrera) has previously represented the City and its participation in the coalition of cities named the "Cities Advocating Reasonable Deregulation" ("CARD") in rate matters involving SWEPCO. The accompanying Resolution authorizes retention of Herrera & Boyle, PLLC as Special Counsel.

RATE CASE EXPENSES

Cities, by statute, are entitled to recover their reasonable rate case expenses from the utility. Legal counsel and consultants approved by the City will submit monthly invoices to the City designated by CARD to serve as the "coordinating" city, that will then forward invoices to SWEPCO for reimbursement; currently that city is the City of Longview. No individual city's budget is negatively affected. The accompanying Resolution directs SWEPCO to reimburse CARD's rate case expenses on a monthly basis based on presentation of invoices from the cities.

ACTION: DENIAL OF SWEPCO'S PROPOSED RATE INCREASE

SWEPCO's TCRF and DCRF applications require that the City exercise, through its participation in CARD, its due diligence to ensure that SWEPCO's application not contain unreasonable expenses or proposals and therefore should be carefully reviewed. Thus, it is crucial that the City intervene in the proceedings pending before the PUCT and related appeals, if any.

With regard to SWEPCO's DCRF application, the City only has 60 days to take final action on SWEPCO's request. If the City has not acted within 60 days, the application is deemed denied and appealed to the PUCT to be consolidated with the DCRF proceeding pending at the PUCT. SWEPCO filed its DCRF application on March 16, 2016; therefore the City has until May 15, 2016 to act. It is virtually impossible for the City to

set just and reasonable rates before the expiration of City's jurisdiction at the 60-day mark. Denial does not preclude the City's special regulatory counsel and experts an opportunity to perform a review of SWEPCO's application and to request additional information as necessary to fully evaluate the proposal and determine the most appropriate response. Further, a denial will not eliminate the possibility of resolving the proceeding through settlement. Lastly, the City will continue its evaluation of SWEPCO's DCRF application by intervening in the proceedings at the PUCT.

RECOMMENDATION

It is recommended that the City deny SWEPCO's application for an increase in rates through a DCRF tariff.

It is also recommended that the City continue its participation in CARD, intervene in the proceedings pending before the Public Utility Commission of Texas in Docket Nos. 45691 (TCRF) and 45712 (DCRF) and related proceedings and appeals, if any.

It is further recommended that the City retain the law firm of Herrera & Boyle, PLLC to represent the City's interest in matters related to Docket Nos. 45691 (TCRF) and 45712 (DCRF) and related appeals, if any, and to advise the City with regard to SWEPCO's application, and to retain consultants subject to approval by the CARD steering committee to assist Special Counsel in its prosecution of the appeal.

The deadline for taking action on SWEPCO's DCRF application is May 15, 2016, but the City should take action at its earliest opportunity to ensure full participation in SWEPCO's DCRF and TCRF proceedings before the Public Utility Commission of Texas.

RESOLUTION NO. _____

RESOLUTION BY THE CITY OF _____ ("CITY") TO INTERVENE IN SOUTHWESTERN ELECTRIC POWER COMPANY'S APPLICATION AT THE PUBLIC UTILITY COMMISSION OF TEXAS TO INCREASE RATES UNDER ITS TRANSMISSION COST RECOVERY FACTOR AND DISTRIBUTION COST RECOVERY FACTOR; AND TO DENY SWEPCO'S PROPOSED DISTRIBUTION COST RECOVERY FACTOR; REQUIRING THE REIMBURSEMENT OF MUNICIPAL RATE CASE EXPENSES; AUTHORIZING PARTICIPATION IN THE COALITION OF SIMILARLY SITUATED CITIES; AUTHORIZING INTERVENTION AND PARTICIPATION IN ALL RELATED PROCEEDINGS, INCLUDING APPEALS, IF ANY; AUTHORIZING THE RETENTION OF SPECIAL COUNSEL; FINDING THAT THE MEETING COMPLIES WITH THE OPEN MEETINGS ACT; MAKING OTHER FINDINGS AND PROVISIONS RELATED TO THE SUBJECT; AND DECLARING AN EFFECTIVE DATE

WHEREAS, on or about March 16, 2016, Southwestern Electric Power Company ("SWEPCO" or "Company") filed an application with the Public Utility Commission of Texas (PUCT) to increase rates by about $4.9 million through a surcharge called a "Transmission Cost Recovery Factor" (TCRF) to recover SWEPCO's costs for improvements to its transmission infrastructure and changes in wholesale transmission charges; and

WHEREAS, on or about March 16, 2016, SWEPCO also filed an application with the City and PUCT to increase rates by about $9.2 million through a surcharge called a "Distribution Cost Recovery Factor" (DCRF) to recover SWEPCO's costs related to its distribution infrastructure; and

WHEREAS, SWEPCO's proposed increases – that is, the combined TCRF and DCRF applications – would increase its Texas retail revenue by approximately $14.1 million; and

WHEREAS, SWEPCO's proposals – both TCRF and DCRF – would increase a residential customer's bill by about $3.24; and

WHEREAS, with regard to SWEPCO'S DCRF application, the City is a regulatory authority under the Public Utility Regulatory Act ("PURA") and under

Chapter 33, §33.001 et seq. of PURA has exclusive original jurisdiction over SWEPCO's rates, operations, and services within the municipality; and

WHEREAS, with regard to SWEPCO'S DCRF application, the statutory deadline for the City to act is 60 days from the application date or by May 15, 2016; and

WHEREAS, SWEPCO's TCRF and DCRF applications consist of a voluminous amount of information including SWEPCO's application, exhibits, schedules, and workpapers; and

WHEREAS, under the Public Utility Regulatory Act (PURA), § 33.025, the City has a right to participate in all ratemaking proceedings affecting rates within the City; and

WHEREAS, the decision of the Public Utility Commission of Texas will have an impact on the rates paid by the City and its citizens; and

WHEREAS, the City will require the assistance of specialized legal counsel and rate experts to review the merits of SWEPCO's application; and

WHEREAS, in order for the City to exercise its due diligence to review the merits of SWEPCO's proposed increase in rates, and for the City's participation to be meaningful, it is necessary that the City promptly intervene in such proceedings at the Public Utility Commission of Texas and related appeals, if any; and

WHEREAS, in order to maximize the efficient use of resources and expertise in reviewing, analyzing and investigating SWEPCO's rate requests it is prudent to coordinate the City's efforts with a coalition of similarly situated municipalities; and

WHEREAS, the City, in matters regarding applications by SWEPCO to change rates, has in the past joined with other local regulatory authorities to form the Cities Advocating Reasonable Deregulation ("CARD") and hereby continues its participation in CARD; and

WHEREAS, SWEPCO simultaneously filed its applications to increase rates with the Public Utility Commission of Texas and the City, therefore the decision of the Public Utility Commission of Texas could have an impact on the rates paid by the City and its citizens who are customers in SWEPCO's service territory; and

WHEREAS, SWEPCO failed to show that its proposed DCRF rate increase is reasonable and therefore the City has concluded that SWEPCO's proposed rate increase is unreasonable.

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

Section 1. The findings set out in the preamble are in all things approved and incorporated herein as if fully set forth.

Section 2. The City authorizes intervention in proceedings related to SWEPCO's application to implement a change in its TCRF and implementation of its DCRF before the Public Utility Commission of Texas and related proceedings in courts of law and participation in the coalition of cities known as Cities Advocating Reasonable Deregulation.

Section 3. The City **DENIES** the rate increase SWEPCO filed on or about March 16, 2016 seeking an increase in rates through a Distribution Cost Recovery Factor.

Section 4. The City hereby orders SWEPCO to reimburse the City's rate case expenses as provided in the Public Utility Regulatory Act § 33.023 and that SWEPCO shall do so on a monthly basis and within 30 days after submission of the City's invoices for the City's reasonable costs associated with the City's activities related to this proceeding or to related proceedings involving SWEPCO before the City, the Public Utility Commission of Texas, or any court of law.

Section 5. Subject to the right to terminate employment at any time, the City retains and authorizes the law firm of Herrera & Boyle, PLLC to act as Special Counsel with regard to SWEPCO's application to increase rates in matters before the City, the Public Utility Commission of Texas, or any court of law and to retain such experts as may be reasonably necessary for review of SWEPCO's application subject to approval by the City.

Section 6. The City, through its participation in CARD, shall review the invoices of the lawyers and experts for reasonableness before submitting the invoices to SWEPCO for reimbursement.

Section 7. A copy of this resolution shall be sent to SWEPCO's local representative; and to Mr. Alfred R. Herrera, Herrera & Boyle, PLLC, 816 Congress Ave., Suite 1250, Austin, Texas 78701.

Section 8. The meeting at which this resolution was approved was in all things conducted in strict compliance with the Texas Open Meetings Act, Texas Government Code, Chapter 551.

Section 9. This resolution shall become effective from and after its passage.

PASSED AND APPROVED this _____ day of _____, _____.

_____

Mayor

ATTEST:

_____

City Secretary