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Legal Department

American Electric Power
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Richmond, Virginia 23219
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July 9, 2025

By Electronic Filing

Hon. Bernard J. Logan, Clerk
State Corporation Commission
Document Control Center
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**Re: *Petition of Appalachian Power Company for a financing order
authorizing the issuance of securitized asset cost bonds pursuant to
§ 56-249.8 of the Code of Virginia
Case No. PUR-2025-00116***

Dear Mr. Logan:

Attached for filing in the above-referenced case is Appalachian Power Company's Petition for Approval of Financing Order and Petition for Exemption.

Sincerely,

/s/ Elisabeth M. Bruce

Elisabeth M. Bruce

Attachment

cc: William H. Chambliss, Esq.
 C. Meade Browder, Jr., Esq.

COMMONWEALTH OF VIRGINIA
STATE CORPORATION COMMISSION

PETITION OF

APPALACHIAN POWER COMPANY

**For a financing order authorizing the issuance of
securitized asset cost bonds pursuant to
§ 56-249.8 of the Code of Virginia**

Case No. PUR-2025-00116

PETITION FOR APPROVAL OF FINANCING ORDER
AND PETITION FOR EXEMPTION

Appalachian Power Company (“Appalachian,” “APCo,” or the “Company”), by counsel, pursuant to Section 56-249.8 of the Code of Virginia (the “Securitization Statute”) respectfully petitions for the State Corporation Commission’s (the “Commission”) approval of the Financing Order attached to this Petition as Attachment 2 (the “Financing Order”). With the Commission’s approval of this Petition, Appalachian estimates that customers will benefit by Net Present Value (“NPV”) savings of approximately \$175.5 million or \$11.44 per month for a residential customer using 1000 kWh, as compared to typical rate recovery. In this Petition, the Company seeks:

- i. Authorization to finance through a Securitization (as defined below): (1) the Virginia jurisdictional storm restoration costs incurred between January 1, 2024 and March 31, 2025 in the amount of approximately \$140.6 million (the “Storm Costs”); (2) the Virginia jurisdictional share of the undepreciated plant balances of the Amos and Mountaineer power plants as of December 31, 2023 in the amount of approximately \$1.2 billion (the “Plant Balances”); and (3) up-front Financing Costs associated with this proposed securitization transaction in the amount of approximately \$11.2 million (“Up-front Financing Costs”);¹
- ii. Approval of the proposed securitization financing structure (the “Securitization”);
- iii. Approval to sponsor the issuance of Securitized Asset Cost Bonds (“SAC Bonds”) in the amount of approximately \$1.376 billion, in one or more series or tranches;
- iv. Approval of the Up-front Financing Costs incurred in connection with the issuance of the SAC Bonds and on-going Financing Costs (“On-going Financing

¹ Collectively the Storm Costs and Plant Balances are referred to as Securitized Asset Costs.

Costs” and collectively, with the Up-front Financing Costs, the “Financing Costs”);

- v. Approval to create Securitized Asset Cost Property (“SAC Property”), including the right to (a) impose, bill, charge, collect and receive nonbypassable Securitized Asset Cost Charges (“SAC Charges”) sufficient to recover the principal of, and interest on, the SAC Bonds plus On-going Financing Costs; and (b) obtain periodic formulaic adjustments to the SAC Property as provided in this Financing Order;
- vi. Approval of the tariff to implement the SAC Charges;
- vii. Approval of the Storm Costs; and
- viii. Approval of the Company’s request for an exemption from Affiliates Act approval for the Securitization.

In support of its Petition, the Company respectfully states as follows:

I. OVERVIEW AND BACKGROUND

Appalachian is a Virginia public service corporation serving approximately 542,000 customers in Virginia and maintaining an office at 1051 East Cary Street, Suite 1100, Richmond, Virginia 23219. The Company is an incumbent electric utility as defined in Section 56-576 of the Virginia Electric Utility Regulation Act. The contact information for Appalachian’s attorneys is stated at the end of the Petition.

This Petition and the attached testimony support a Commission finding that the proposed Securitization is in the public interest and that the proposed SAC Charges are just and reasonable. As supported by the testimony of Company witness Castle, the Securitization is expected to produce NPV cost savings of approximately \$175.5 million to customers as compared to traditional cost-recovery mechanisms. The Securitization will also mitigate abrupt and significant increases in rates that would otherwise result from the recovery of the Storm Costs.

II. WITNESSES IN SUPPORT OF THE PETITION

The following witnesses testify in support of the Petition:

- **William K. Castle**, Director of Regulatory Services-VA/TN for APCo. Mr. Castle introduces and provides an overview of the Securitized Asset Costs, the Financing Costs, the Securitization process (including cost allocation, SAC Charges, and the true-up process), and the substantial estimated customer savings and rate impact mitigation produced by the Securitization.
- **Jason E. Baker**, Vice President of Distribution Operations for ApCo. Mr. Baker describes the major cost drivers of the Storm Costs.
- **Steven Moffitt**, Managing Director, Co-Head of the Americas Structured Financing Group within the Capital Solutions Group at Goldman Sachs & Co. (“Goldman”). Mr. Moffitt describes the preliminary terms and the proposed structure of the securitization transaction; the key factors in structuring and pricing the consumer rate relief bonds to achieve the lowest reasonably attainable cost for the proposed offering consistent with the financing order and market conditions at the time of pricing; the collection and disbursement of SAC Charges received from customers for the payment of principal and interest, ongoing financing costs, and other fees and expenses pursuant to the payment waterfall for the securitization; and the roles of certain parties involved in the transaction.

III. THE SECURITIZATION STATUTE

During its 2025 Session, the Virginia General Assembly amended the Code of Virginia by adding a section numbered 56-249.8 and by adding in Chapter 23 of Title 56 a section numbered 56-596.5. This Act of Assembly, referred to herein as the “Act,” became effective July 1, 2025. The Act, inter alia, modifies a financing vehicle, utility cost recovery charge securitization, that may be used by an electric utility to recover certain securitized asset costs, codified at § 249.8 of Title 56 of the Code of Virginia (“Va. Code”) (the “Securitization Statute”). Under the Securitization Statute, an electric utility may seek authorization to issue securitized asset cost bonds that are secured by securitized asset cost property, including a dedicated securitized asset cost charge that is separate and distinct from the utility’s base rates.

APCo requests authorization to issue SAC Bonds in the amount of approximately \$1.376 billion, which consists of \$1.36 billion of Securitized Asset Costs, plus Up-front Financing Costs of issuing the SAC Bonds of approximately \$11.2 million.

Va. Code § 56-249.8 B provides that:

Notwithstanding the provisions of Chapter 3 (§ 56-55 et seq.), an electric utility may petition the Commission for a financing order pursuant to this section. No more than four months after the date such petition is filed, the Commission shall issue either (i) such financing order in accordance with the requirements of subdivision 2 or (ii) an order rejecting the petition.

Under Va. Code § 56-249.8 B 1, the petition shall include:

(i) an estimate of the total amount of any securitized asset costs that the electric utility has incurred over the time period noted in the petition; (ii) an indication of whether the electric utility proposes to finance all or a portion of the securitized asset costs using one or more series or tranches of securitized asset cost bonds; (iii) an estimate and details of the financing costs related to the securitized asset costs to be financed through the securitized asset cost bonds; (iv) an estimate of the securitized asset cost charges necessary to recover the securitized asset costs and all financing costs and the proposed period for recovery of such costs; (v) a description of any benefits expected to result from the issuance of securitized asset cost bonds, including the avoidance of or significant mitigation of abrupt and significant increases in rates to the electric utility's customers for the applicable time period; and (vi) direct testimony and exhibits supporting the petition. If the electric utility proposes to finance a portion of the securitized asset costs, the electric utility shall identify in the petition the specific amount of securitized asset costs for the applicable time period to be financed using securitized asset cost bonds.

A financing order issued by the Commission pursuant to Va. Code § 56-249.8 shall include the following:

- i. The amount of securitized asset costs to be financed using securitized asset cost bonds. The Commission shall describe and estimate the amount of financing costs that may be recovered through securitized asset cost charges. The financing order shall also specify the period over which securitized asset costs and financing costs may be recovered and whether the securitized asset cost bonds may be offered and issued in one or more series or tranches during a fixed period not to exceed one year after the date of the financing order;

- ii. A finding that the proposed issuance of securitized asset cost bonds is in the public interest and the associated securitized asset cost charges are just and reasonable;
- iii. A finding that the structuring and pricing of the securitized asset cost bonds are reasonably expected to result in reasonable securitized asset charges consistent with market conditions at the time the securitized asset cost bonds are priced and the terms set forth in such financing order;
- iv. A requirement that, for so long as the securitized asset cost bonds are outstanding and until all financing costs have been paid in full, the imposition and collection of securitized asset cost charges authorized under a financing order shall be nonbypassable and paid by all retail customers of the electric utility, irrespective of the generation supplier of such customer, except for an exempt retail access customer;
- v. A formula-based true-up mechanism for making annual adjustments to the securitized asset cost charges that customers are required to pay pursuant to the financing order and for making any adjustments that are necessary to correct for any overcollection or undercollection of the charges or to otherwise ensure the timely payment of securitized asset cost bonds and financing costs and other required amounts and charges payable in connection with the securitized asset cost bonds;
- vi. The securitized asset cost property that is, or shall be, created in favor of an electric utility or its successors or assignees and that shall be used to pay or secure securitized asset cost bonds and all financing costs;
- vii. The authority of the electric utility to establish (i) the terms and conditions of the securitized asset cost bonds, including repayment schedules, expected interest rates, the issuance in one or more series or tranches with different maturity dates, and other financing costs, and (ii) the terms and conditions of the ancillary documents related to the securitized asset cost bonds, including servicing arrangements for securitized asset cost charges;
- viii. A finding that the securitized asset cost charges shall be allocated among customer classes in accordance with the methodology approved in the electric utility's most recent base rate case;
- ix. A requirement that after the final terms of an issuance of securitized asset cost bonds have been established and before the issuance of securitized asset cost bonds, the electric utility determines the resulting initial securitized asset cost charge in accordance with the financing order and that such initial securitized asset cost charge be final and effective upon the issuance of such securitized asset cost bonds without further Commission action so long as such initial securitized asset cost charge is consistent with the financing order;
- x. A method of tracing funds collected as securitized asset cost charges, or other proceeds of securitized asset cost property, and a requirement that

such method be the method of tracing such funds and determining the identifiable cash proceeds of any securitized asset cost property subject to the financing order under applicable law;

- xi. A requirement that the electric utility's base rates, exclusive of the cost of securitized asset cost bonds, reflect the reduction of rates associated with securitization effective on the date on which proceeds from the issuance of the securitized asset cost bonds are received by the electric utility;
- xii. Any other conditions not otherwise inconsistent with this section that the Commission determines are appropriate;
- xiii. A requirement that the electric utility's base rates, exclusive of the cost of securitized asset cost bonds, reflect the reduction of rate base associated with the securitization of utility plant balances effective on the date proceeds from the issuance of the securitized asset cost bonds are received by the utility;
- xiv. A method of tracing funds collected as securitized asset cost charges, or other proceeds of securitized asset cost property, and a requirement that such method be the method of tracing such funds and determining the identifiable cash proceeds of any securitized asset cost property subject to the financing order under applicable law; and
- xv. Any other conditions not otherwise inconsistent with this section that the Commission determines are appropriate.

A listing of these requirements and a corresponding reference to where they are included in the testimony, financing order, or other exhibits is attached to this Petition as Attachment 1.

IV. THE SECURITIZED ASSET COSTS

The Company seeks to securitize the Storm Costs, the Plant Balances, and the Up-front Financing Costs in the Securitization and proposes to finance these costs using one or more series or tranches of SAC Bonds. Company witness Baker describes the Storm Costs in the amount of approximately \$141 million and the storms that occurred between January 1, 2024 and March 31, 2025 that led to the Storm Costs. As demonstrated by Company witness Baker's description of the major cost drivers, these Storm Costs were necessary and prudently incurred

by the Company. Thus, these costs are just and reasonable as required by the Securitization Statute.²

Company witness Castle describes the Plant Balances included in the Company's proposed Securitized Asset Costs in the amount of approximately \$1.22 billion. As Company witness Castle explains, the majority of the Plant Balances are recovered through base rates, and the incremental investments to comply with environmental regulations are currently being recovered through the Company's Environmental Rate Adjustment Clause ("E-RAC"). As part of the Securitization, the Company proposes that the Plant Balances be removed from APCo's rate base, thus lowering base rates, and that the environmental cost portion of the Plant Balances be removed from the E-RAC following the issuance of the SAC Bonds, resulting in an additional reduction to rates for customers. The Company proposes to accomplish this reduction through a Securitized Rate Reduction Rider, which is explained further in Company witness Castle's testimony.³

V. THE SECURITIZATION

To accomplish the proposed Securitization, the Company requests authorization to issue SAC Bonds in the amount of approximately \$1.376 billion, consisting of \$1.365 billion of Securitized Asset Costs, plus \$11.2 million in Up-front Financing Costs. The Company proposes using one or more Special Purpose Entities ("SPEs"), each of which will be a Delaware limited liability company ("LLC") with APCo as its sole member. The SPE(s) will be an "assignee" as defined in Va. Code § 56-249.8 A, when an interest in SAC Property is transferred, other than as security, to such SPE, and such SPE may issue SAC Bonds in accordance with the attached Financing Order. The actual interest rates, terms, tranches, and other characteristics of the SAC

² Va. Code § 56-249.8 B 2.a(2).

³ The Securitized Rate Reduction Rider will function like the reduction rider that was authorized for the reduction in corporate tax rates in Case No. PUR-2018-00054.

Bonds will be determined at the time of pricing of the bonds and will depend on prevailing market conditions.

In addition to the Up-front Financing Costs of approximately \$11.2 million, the Company estimates it will incur Ongoing Financing Costs of approximately \$1.6 million annually. Both the Up-front Financing Costs and the Ongoing Financing Costs are necessary and represent expenses that the Company estimates incurring during the SAC Bond issuance and throughout the term of the SAC Bonds, including Securities and Exchange Commission fees, legal and accounting fees, rating agency fees, Commission and Company advisor fees, return on equity contributions to the SPE, and other administrative fees.

As explained further in Company witness Castle's testimony, once the proceeds from the SAC Bonds are received, the Company will reduce its generation base rates (by means of the Securitized Rate Reduction Rider) and E-RAC rates and will establish a new SAC Charge listed separately on customers' bills. This SAC Charge will be used by the Company to pay the scheduled interest and principal payments on the SAC Bonds and all ongoing financing costs.

Company witness Castle explains how, in accordance with Va. Code § 56-249.8 B 2.a(10) and (14), APCo will identify and segregate the funds collected as SAC Charges, including how APCo will use a specific billing code for SAC Charges, deposit such funds into designated collection accounts, and maintain records sufficient to determine the identifiable cash proceeds of any Securitized Asset Cost Property subject to the attached Financing Order. Company witness Castle further explains the true-up process pursuant to Va. Code § 56-249.8 to account for any over- or under- collections of the SAC Charges.

VI. CUSTOMER BENEFITS OF THE SECURITIZATION

Company witness Castle explains how the Securitization will result in significant benefits to customers including the avoidance and mitigation of rate increases. Without the Securitization, the Company would seek recovery of the Storm Costs through its base rates,

which would result in a significant increase in rates. In that scenario, Company witness Castle estimates that the Storm Costs would be amortized over a four-year period given the magnitude of the costs. By contrast, if the Storm Costs are included in the Securitization, the Company will not seek recovery of the Storm Costs through its base rates. Rather, the recovery of the Storm Costs will be part of the Securitization and, because the SAC Bonds will have a term of 20-years, the impact of the Storm Costs will be significantly reduced. Thus, the Securitization will avoid or significantly mitigate an abrupt and significant increase in rates due to the Storm Costs.⁴

Further, once the Company receives the proceeds from the issuance of the SAC Bonds, the Company's base rates and its E-RAC will be adjusted, to reflect the removal of the Plant Balances. Company witness Castle demonstrates that securitizing the Plant Balances over a period slightly longer than the remaining depreciable life (i.e., 20 years) recovers the same amount of rate base (or "principal," once securitized) at a lower annual cost to customers.

Company witness Castle analyzes the cost to customers of the Storm Costs and the Plant Balances under a traditional cost recovery method as compared with the cost to customers under the Securitization. Company witness Castle estimates that the Securitization will result in cost savings with a NPV of approximately \$175.5 million based on current market conditions and reasonable assumptions explained further in his testimony. Overall, the Securitization is estimated to reduce generation base rates by \$176.4 million and the E-RAC by approximately \$23 million annually. Company witness Castle estimates that the Securitization will save

⁴ Va. Code § 56-249.8 B 1.

residential customers approximately \$11.44 per month as compared to traditional cost recovery methods during the first full year following the Securitization.

VII. PETITION FOR EXEMPTION

The Company respectfully requests that the Commission grant it an exemption from the filing and prior approval requirements of the Va. Code §§ 56-76, *et seq.* (the “Affiliates Act”), to the extent required, for the activities necessary to accomplish the Securitization. The attached Financing Order would, among other things, authorize the Company to create and sell the SAC Property to an assignee, issue the SAC Bonds, and enter into the necessary agreements with the SPE (an “assignee” as defined in Va. Code § 56-249.8 A) to facilitate the Securitization. As noted in the Financing Order, the necessary agreements include a Purchase and Sale Agreement, Administration Agreement, Limited Liability Company Agreement, Indenture, Servicing Agreement, and Intercreditor Agreement.⁵

The Company respectfully requests an exemption from the filing and prior approval requirements pursuant to Va. Code § 56-77 B related to these agreements and the Company’s interactions with the SPE. Exemption from the Affiliates Act is in the public interest because the Securitization is subject to the explicit directives of the Securitization Statute and will be subject to the Financing Order when issued by the Commission. Thus, there is no potential for preferential treatment or cross-subsidization that the Affiliates Act is intended to prevent. Further, all relevant issues that would be considered and approved in an Affiliates Act

⁵ Any services to be provided by employees of American Electric Power (“AEP”) to APCo and/or the SPE as part of the Securitization will be provided pursuant to the current AEP Services Agreement, which was last approved by the Commission pursuant to Va. Code § 56-76 *et seq.* by order dated October 14, 2022 in Case No. PUR-2022-00142.

proceeding will be addressed and vetted as part of this proceeding. The Commission granted a similar exemption in Case No. PUR-2023-00112.⁶

VIII. CONCLUSION

WHEREFORE, Appalachian respectfully requests that the Commission: (1) find that securitization of the Securitized Asset Costs is in the public interest; (2) approve the Storm Costs and the Financing Costs as just and reasonable; (3) approve the Company's issuance of approximately \$1.376 billion in SAC Bonds; (4) issue the Proposed Financing Order attached to this Petition as Attachment 2; (5) grant an exemption from the Affiliates Act approval for the Securitization; and (6) grant such other and further relief as it deems just and proper.

Respectfully submitted,

APPALACHIAN POWER COMPANY

By: /s/Elisabeth M. Bruce

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Counsel for Appalachian Power Company

Dated: July 9, 2025

⁶ See Financing Order, *Petition of Virginia Electric and Power Company For a financing order authorizing the issuance of deferred fuel cost bonds pursuant to Va. Code § 56-249.6:2*, Case No. PUR-2023-00112, Doc. Con. Cen. No. 231110087 (November 3, 2023); Petition for Exemption, *Petition of Virginia Electric and Power Company For exemption from approval of Chapter 4 of Title 56 of the Code of Virginia*, Case No. PUR-2023-00112, Doc. Con. Cen. No. 230830147 (August 18, 2023); Prefiled Staff Testimony, Testimony of Carol B. Myers, pp. 26-30, *Petition of Virginia Electric and Power Company For a financing order authorizing the issuance of deferred fuel cost bonds pursuant to Va. Code § 56-249.6:2*, Case No. PUR-2023-00112, Doc. Con. Cen. No. 230820002 (August 9, 2023).

CERTIFICATE OF SERVICE

I hereby certify that a true copy of the foregoing Petition of Appalachian Power Company was served by electronic mail on this 9th day of July 2025 to:

William H. Chambliss, Esq.
Office of General Counsel
State Corporation Commission
Tyler Building - 10th Floor
1300 East Main Street
Richmond, VA 23219

C. Meade Browder, Jr., Esq.
Senior Assistant Attorney General
Division of Consumer Counsel
Office of the Attorney General
202 N. 9th Street
Richmond, VA 23219

/s/Elisabeth M. Bruce

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[illegible]

[illegible]

COMMONWEALTH OF VIRGINIA
STATE CORPORATION COMMISSION
AT RICHMOND, July 9, 2025

PETITION OF

APPALACHIAN POWER COMPANY

For a financing order authorizing the issuance of
securitized asset cost bonds pursuant to Va. Code
§ 56-249.8

FINANCING ORDER

During its 2025 Session, the Virginia General Assembly amended the Code of Virginia by adding a section numbered 56-249.8 and by adding in Chapter 23 of Title 56 a section numbered 56-596.5. This Act of Assembly, referred to herein as the “Act,” became effective July 1, 2025. The Act, *inter alia*, creates a new a financing vehicle, utility cost recovery charge securitization, that may be used by an electric utility to recover certain securitized asset costs, codified at § 249.8 of Title 56 of the Code of Virginia (“Va. Code”) (the “Securitization Statute”). Under the Securitization Statute, an electric utility may seek authorization to issue securitized asset cost bonds that are secured by securitized asset cost property, including a dedicated securitized asset cost charge that is separate and distinct from the utility’s base rates.

On July 9, 2025, Appalachian Power Company (“APCo”) filed with the State Corporation Commission of Virginia (the “Commission”) its petition (“Petition”) for a financing order pursuant to Va. Code § 56-249.8 to finance certain securitized asset cost balances through securitized asset cost bonds. This financing order (this “Financing Order”) addresses such Petition of APCo.

Specifically, the Petition seeks:

- i. To finance the Securitized Asset Costs¹ and associated up-front Financing Costs (“Up-front Financing Costs”) through a Securitization (as defined below);
- ii. For approval of the proposed securitization financing structure (the “Securitization”);
- iii. For approval to sponsor the issuance of Securitized Asset Cost Bonds, in one or more series consisting of one or more tranches in an aggregate principal amount not to exceed the Securitizable Balance (defined below) (as of the date the first series of Securitized Asset Cost Bonds are issued), which Securitized Asset Cost Bonds would be secured by the pledge of Secured Asset Cost Property to the trustee on behalf of the bondholders;
- iv. For approval of the Financing Costs, including Up-front Financing Costs incurred in connection with the issuance of Securitized Asset Cost Bonds and on-going Financing Costs (“On-going Financing Costs” and collectively, with the Up-front Financing Costs, the “Financing Costs”);
- v. For approval to create Securitized Asset Cost Property (defined below), including the right to (a) impose, bill, charge, collect and receive nonbypassable Securitized Asset Cost Charges sufficient to recover the principal of, and interest on, the Securitized Asset Cost Bonds plus On-going Financing Costs; and (b) obtain periodic formulaic adjustments to the Securitized Asset Cost Property as provided in this Financing Order; and
- vi. For approval of the tariff to implement the Securitized Asset Cost Charges.

As set forth in the Petition, and updated during this proceeding, APCo requests authorization to issue Securitized Asset Cost Bonds in the amount of approximately \$1,375,500,000 (the “Securitizable Balance”), which consists of approximately \$1,364,256,421 of Securitized Asset Costs, *minus* \$[0]² of Aggregate Customer Opt-Out Payments as defined in the Large Customer

¹ All capitalized terms not otherwise defined herein shall have the meaning assigned to them in Va. Code § 56-249.8:A and refer specifically to APCo’s particular transaction approved herein.

² To be determined based on the amount of any Aggregate Customer Opt-Out Payments. The amount of Aggregate Customer Opt-Out Payments, if any, will affect the Securitizable Balance as a result.

Opt-Out Provision, *plus* Up-front Financing Costs of issuing the Securitized Asset Cost Bonds of approximately \$11,243,579.

Va. Code § 56-249.8:B. provides that:

Notwithstanding the provisions of Chapter 3 (§ 56-55 et seq.), an electric utility may petition the Commission for a financing order pursuant to this section. No more than four months after the date such petition is filed, the Commission shall issue either (i) such financing order in accordance with the requirements of subdivision 2 or (ii) an order rejecting the petition, no more than four months from the date of filing such petition.

Under Va. Code § 56-249.8:B.1., the petition shall include:

(i) an estimate of the total amount of any securitized asset costs that the electric utility has incurred over the time period noted in the petition; (ii) an indication of whether the electric utility proposes to finance all or a portion of the securitized asset costs using one or more series or tranches of securitized asset cost bonds; (iii) an estimate and details of the financing costs related to the securitized asset costs to be financed through the securitized asset cost bonds; (iv) an estimate of the securitized asset cost charges necessary to recover the securitized asset costs and all financing costs and the proposed period for recovery of such costs; (v) a description of any benefits expected to result from the issuance of securitized asset cost bonds, including the avoidance of or significant mitigation of abrupt and significant increases in rates to the electric utility's customers for the applicable time period; and (vi) direct testimony and exhibits supporting the petition. If the electric utility proposes to finance a portion of the securitized asset costs, the electric utility shall identify in the petition the specific amount of securitized asset costs for the applicable time period to be financed using securitized asset cost bonds.

A financing order issued by the Commission pursuant to Va: Code § 56-249.8:B.2.a. shall include the following:

- i. The amount of securitized asset costs to be financed using securitized asset cost bonds. The Commission shall describe and estimate the amount of financing costs that may be recovered through securitized

asset cost charges. The financing order shall also specify the period over which securitized asset costs and financing costs may be recovered and whether the securitized asset cost bonds may be offered and issued in one or more series or tranches during a fixed period not to exceed one year after the date of the financing order;

- ii. A finding that the proposed issuance of securitized asset cost bonds is in the public interest and the associated securitized asset cost charges are just and reasonable;
- iii. A finding that the structuring and pricing of the securitized asset cost bonds are reasonably expected to result in reasonable securitized asset charges consistent with market conditions at the time the securitized asset cost bonds are priced and the terms set forth in such financing order;
- iv. A requirement that, for so long as the securitized asset cost bonds are outstanding and until all financing costs have been paid in full, the imposition and collection of securitized asset cost charges authorized under a financing order shall be nonbypassable and paid by all retail customers of the electric utility, irrespective of the generation supplier of such customer, except for an exempt retail access customer;
- v. A formula-based true-up mechanism for making annual adjustments to the securitized asset cost charges that customers are required to pay pursuant to the financing order and for making any adjustments that are necessary to correct for any overcollection or undercollection of the charges or to otherwise ensure the timely payment of securitized asset cost bonds and financing costs and other required amounts and charges payable in connection with the securitized asset cost bonds;
- vi. The securitized asset cost property that is, or shall be, created in favor of an electric utility or its successors or assignees and that shall be used to pay or secure securitized asset cost bonds and all financing costs;
- vii. The authority of the electric utility to establish (i) the terms and conditions of the securitized asset cost bonds, including repayment schedules, expected interest rates, the issuance in one or more series or tranches with different maturity dates, and other financing costs, and (ii) the terms and conditions of the ancillary documents related to the securitized asset cost bonds, including servicing arrangements for securitized asset cost charges;

- viii. A finding that the securitized asset cost charges shall be allocated among customer classes in accordance with the methodology approved in the electric utility's most recent base rate case;
- ix. A requirement that after the final terms of an issuance of securitized asset cost bonds have been established and before the issuance of securitized asset cost bonds, the electric utility determines the resulting initial securitized asset cost charge in accordance with the financing order and that such initial securitized asset cost charge be final and effective upon the issuance of such securitized asset cost bonds without further Commission action so long as such initial securitized asset cost charge is consistent with the financing order;
- x. A method of tracing funds collected as securitized asset cost charges, or other proceeds of securitized asset cost property, and a requirement that such method be the method of tracing such funds and determining the identifiable cash proceeds of any securitized asset cost property subject to the financing order under applicable law;
- xi. A requirement that the electric utility's base rates, exclusive of the cost of securitized asset cost bonds, reflect the reduction of rates associated with securitization effective on the date on which proceeds from the issuance of the securitized asset cost bonds are received by the electric utility;
- xii. A requirement that the electric utility's base rates, exclusive of the cost of securitized asset cost bonds, reflect the reduction of rate base associated with the securitization of utility plant balances effective on the date proceeds from the issuance of the securitized asset cost bonds are received by the utility; and
- xiii. Any other conditions not otherwise inconsistent with this section that the Commission determines are appropriate.

NOW THE COMMISSION, having considered this matter, is of the opinion and finds as follows:³

COSTS ELIGIBLE FOR FINANCING

Securitizable Balance

The Commission finds that the Securitizable Balance of approximately \$1,375,500,000, consisting of approximately \$1,364,256,421 of Securitized Asset Costs, *minus* \$[0] of Aggregate Customer Opt-Out Payments as defined in the Large Customer Opt-Out Provision, *plus* Up-front Financing Costs of issuing the Securitized Asset Cost Bonds of approximately \$11,243,579, is eligible for financing through securitization and recovery through Securitized Asset Cost Charges. The Commission also finds that the Securitizable Balance may be recovered over a period of time not less than 22 years. The Securitized Asset Cost Bonds may be offered in one or more series consisting of one or more tranches during a fixed period of time not to exceed one year after the date of this Financing Order.

Further, the Commission finds, subject to the requirements, and conditions herein, (i) that the proposed issuance of Securitized Asset Cost Bonds is in the public interest and the associated Securitized Asset Cost Charges are just and reasonable; and (ii) that the structuring and pricing of the Securitized Asset Cost Bonds are reasonably expected to result in reasonable Securitized Asset Cost Charges consistent with market conditions at the time the Securitized Asset Cost Bonds are priced and the terms set forth in this Financing Order (collectively, the “Statutory Cost Objectives”).

³ The Commission has fully considered the evidence and arguments in the record supporting and opposing the positions of all participants. *See also Board of Supervisors of Loudoun County v. State Corp. Comm’n*, 292 Va. 444, 454 n.10 (2016) (“We note that even in the absence of this representation by the Commission, pursuant to our governing standard of review, the Commission’s decision comes to us with a presumption that it considered all of the evidence of record.”) (citation omitted).

In issuing this Financing Order, the Commission finds that APCo shall be required to certify that Customers⁴ will realize quantifiable customer benefits from the Securitization, measured by a positive net present value (“NPV”) compared to traditional cost recovery methods once the final structure and terms of the bond issuance are determined and prior to issuance of the Securitized Asset Cost Bonds. We further find the pre-tax weighted average cost of capital (as established in APCo’s then most recent base rate case) shall be used as the discount rate in that NPV calculation.

Securitized Asset Costs

The Commission finds that the Securitized Asset Costs in the amount of approximately \$1,364,256,421 are reasonable and eligible for recovery through securitization pursuant to Va. Code § 56-249.8:B.2.a.,(1). and A. Any over or under-recovery of Securitized Asset Costs will be eligible for future recovery or refund.

Up-front Financing Costs

APCo’s proposed Up-front Financing Costs, in the estimated amount of \$11,243,579, are reasonable and eligible for recovery through securitization pursuant to Va. Code § 56-249.8:B.2.A.(1). and A. Any over or under-recovery of Up-front Financing Costs will be eligible for future recovery or refund.

Large Customer Opt-Out of Securitized Asset Cost Charges

Pursuant to paragraph 2 of the Act, as a result of APCo being a Phase I Utility, any retail customer of APCo that is receiving electricity supply service from APCo and whose demand exceeded five megawatts (MW) during the calendar year prior to the filing this Petition, is eligible to opt out of financing its pro rata obligation for Securitized Asset Cost Charges through the

⁴ The term “Customers” as used herein means all existing and future Commission-jurisdictional retail customers that receive electric service within APCo’s geographic service territory in the Commonwealth of Virginia that have not opted out and are therefore subject to the Securitized Asset Cost Charges.

Securitization. This Petition is notice to all such eligible customers of their eligibility to opt out, which must be exercised by each such eligible customer by (i) providing written notice of such eligible customer's opt-out election to APCo within 30 days of the filing of this Petition and (ii) such eligible customer paying to APCo, up front and prior to the issuance of the Securitized Asset Cost Bonds, such eligible customer's pro rata share of the amount approved in the Financing Order, calculated based on such customer's contribution to the class allocations and billing determinants approved in the Company's 2024 Biennial Review. Upon receipt of an eligible customer's request to opt-out of this Securitization, APCo will invoice the eligible customer for such eligible customer's pro rata share using such calculation, which must be paid in full and prior to the issuance of the Securitized Asset Cost Bonds for such eligible customer to opt out of this Securitization. Upon timely payment of such eligible customers pro rata share, any Securitized Asset Cost Charges approved for recovery through Securitized Asset Cost Bonds shall not include the corresponding obligations of such eligible customers who have so opted out of the Securitization. The aggregate amount of each eligible customer's timely payment of such pro rata share being the "Aggregate Customer Opt-Out Payments." This provision hereinafter is referred to as the "Large Customer Opt-Out Provision."

STRUCTURE OF ISSUANCE

APCo's proposed financing structure adheres to the requirements of the Act.

Special Purpose Entities

For purposes of securitization, it is reasonable for APCo to utilize one or more Special Purpose Entities ("SPEs"), each of which will be a Delaware limited liability company ("LLC") with APCo as its sole member. Any such SPE will be an "assignee" as defined in Va. Code § 56-249.8:A., when an interest in Securitized Asset Cost Property is transferred, other than as security,

to such SPE, and such SPE may issue Securitized Asset Cost Bonds in accordance with this Financing Order.

Securitized Asset Cost Property

In accordance with Va. Code §56.249.8:E.1.a, “Securitized Asset Cost Property” shall constitute (i) all rights and interests of APCo, or its successor or assignee, under this Financing Order, including the right to impose, bill, charge, collect and receive Securitized Asset Cost Charges authorized in this Financing Order and to obtain periodic adjustments to such Securitized Asset Cost Charges as provided in this Financing Order, and (ii) all revenues, collections, claims, rights to payments, payments, money or proceeds arising from the rights and interests specified in this Financing Order, regardless of whether such revenues, collections, claims, rights to payment, payments, money or proceeds are imposed, billed, charged, collected or received with, or maintained together with or commingled with, other revenues, collections, rights to payment, payments, money or proceeds.⁵ The Commission finds that (i) the Securitized Asset Cost Property constitutes “securitization asset cost property” as such term is used in the Securitization Statute and (ii) it is reasonable for APCo to sell or otherwise transfer Securitized Asset Cost Property to the SPE pursuant to the terms of this Financing Order.

Any sale, assignment, or other transfer of Securitized Asset Cost Property pursuant to this Financing Order shall be an absolute transfer and true sale of, and not a pledge of or secured transaction relating to, the transferor’s right, title, and interest in, to, and under the Securitized Asset Cost Property, provided that the documents governing the transaction expressly state that the transaction is a sale or other absolute transfer other than for federal and state income tax purposes.

⁵ The term, “Securitized Asset Cost Property” is used but not defined in the Securitization Statute. The definition of “Securitized Asset Cost Property” authorized and used in this Financing Order aligns with the definition of “deferred fuel cost property” set forth in § 56-249.6:1 of the Va. Code.

For all purposes other than federal and state income tax purposes, the parties' characterization of a transaction as a sale of an interest in Securitized Asset Cost Property shall be conclusive that the transaction is a true sale and that ownership has passed to the party characterized as the purchaser, regardless of any fact or circumstance that might support characterization of the transfer as a secured transaction. A transfer of an interest in Securitized Asset Cost Property shall occur only when all of the following have occurred: (i) this Financing Order creating the Securitized Asset Cost Property has become effective; (ii) the documents evidencing the transfer of Securitized Asset Cost Property have been executed and delivered by APCo and the SPE; and (iii) value is received by APCo for the Securitized Asset Cost Property. After such a transaction, the Securitized Asset Cost Property shall not be subject to any claims of APCo's creditors, other than creditors holding a prior security interest in the Securitized Asset Cost Property perfected in accordance with applicable law.

Furthermore, the characterization of the sale, assignment, or other transfer as an absolute transfer and true sale, and the corresponding characterization of the interest of the SPE as an ownership interest, shall not be affected or impaired by the occurrence of any of the following factors: (i) the commingling of Securitized Asset Cost Charges with other amounts; (ii) the retention by APCo of (a) a partial or residual interest, including an equity interest, in the Securitized Asset Cost Property, whether direct or indirect, or whether subordinate or otherwise, or (b) the right to recover costs associated with taxes, franchise fees, or license fees imposed on the collection of Securitized Asset Cost Charges; (iii) any recourse that the SPE may have against APCo; (iv) any right or obligation that APCo may have to repurchase the Securitized Asset Cost Charges; (v) any indemnification obligations of APCo; (vi) the obligation of APCo to collect Securitized Asset Cost Charges on behalf of the SPE; (vii) APCo acting as the servicer of the Securitized Asset Cost

Charges or the existence of any contract that authorizes or requires APCo, to the extent that any interest in Securitized Asset Cost Property is sold or assigned, to agree with the SPE or any financing party that it will continue to operate its system to provide service to its customers, will collect amounts in respect of the Securitized Asset Cost Charges for the benefit and account of such assignee or financing party, and will account for and remit such amounts to or for the account of such assignee or financing party; (viii) the treatment of the sale, conveyance, assignment, or other transfer for tax, financial reporting, or other purposes; (ix) the granting or providing to bondholders of a preferred right to the Securitized Asset Cost Property or credit enhancement by APCo or its affiliates with respect to the Securitized Asset Cost Bonds; or (x) any application of the formula-based adjustment mechanisms as provided in this Financing Order.

Upon the transfer by APCo of the Securitized Asset Cost Property to the SPE, that SPE will have all of the rights, title and interest of APCo with respect to such Securitized Asset Cost Property, including, consistent with the Act, the right to impose, bill, charge, collect and receive the Securitized Asset Cost Charges authorized by this Financing Order and to obtain periodic formulaic adjustments to each Securitized Asset Cost Charge. Such Securitized Asset Cost Property is expected to be pledged by the SPE to, and held and administered by, a trustee as collateral for payment of the Securitized Asset Cost Bonds to ensure the Statutory Cost Objectives are achieved.

The Commonwealth of Virginia and its agencies, including the Commission, have pledged to and agree with bondholders, the owners of the Securitized Asset Cost Property, and other financing parties, that the Commonwealth and its agencies, including the Commission, will not (i) alter the provisions of the Securitization Statute that (a) authorizes the Commission to create an irrevocable contract right or chose in action by the issuance of this Financing Order, to create Securitized Asset Cost Property, or (b) create the Securitized Asset Cost Charges imposed by this

Financing Order, which are irrevocable, binding, or nonbypassable charges; or (ii) take or permit any action that impairs or would impair the value of Securitized Asset Cost Property or the security for the Securitized Asset Cost Bonds or revises the Securitized Asset Costs for which recovery is authorized, or in any way impair the rights and remedies of the bondholders, assignees, or other financing parties, as further described in Va. Code § 56-249.8:K.1.

Transaction Documents

APCo's and the SPE's entry into a Purchase and Sale Agreement, Administration Agreement, Limited Liability Company Agreement ("LLC Agreement"), Indenture, and Servicing Agreement, current forms of which are necessary to facilitate the transaction and will be filed 30 days after the application (the "Transaction Documents").⁶ An exemption from the requirements of Va. Code § 56-77 A. for these affiliate contracts or arrangements is in the public interest and granted pursuant to Va. Code § 56-77 B. As a condition of the exemption granted herein, APCo shall include the following information in its Annual Report of Affiliate Transactions submitted each year to the Director of the Division of Utility Accounting and Finance, in Microsoft Excel format with formulas intact, for the duration of APCo's roles under the Servicing and Administration Agreements:

- a. A schedule of the Securitized Asset Cost Charges collected by APCo and remitted to the SPE, by month and by dollar amount;
- b. A schedule that quantifies the fees paid by the SPE to APCo, by type of fee, by month, by FERC account where the proceeds from each fee, is recorded on APCo's books, and by dollar amount;
- c. A schedule that quantifies APCo's internal and external costs to carry out its responsibilities under the Servicing and Administration Agreements, by agreement, by type of cost, by month, by FERC account where each cost is recorded on APCo's books, and by dollar amount; and

⁶ These Transaction Documents are subject to change to incorporate rating agency and other considerations.

d. A schedule that quantifies any other charges or fees to/from APCo from/to SPE, by type of charge, by month, by FERC account where each charge or fee is recorded on APCo's books, and by dollar amount.

Offering and Sale of Bonds

APCo is hereby authorized to sponsor the issuance of the Securitized Asset Cost Bonds through a negotiated sale or other sales option to achieve the Statutory Cost Objectives. The Commission finds that it is in the public interest for the Staff to monitor each phase of the offering and issuance, and APCo shall work with Staff to effectuate such monitoring.

Amortization, Interest Rates, and Credit Ratings of Securitized Asset Cost Bonds

The expected term of the scheduled final payment date of the last maturing series or tranche of bonds issued pursuant to the authority granted herein, as determined in the reasonable discretion of APCo, should be no more than approximately 22 years from the issuance of the series of Securitized Asset Cost Bonds. The legal maturity date of each tranche may be longer than the scheduled final payment date for that tranche.

The Commission finds that each tranche of the Securitized Asset Cost Bonds should have a fixed interest rate, determined consistent with current market conditions.

APCo should strive to achieve the highest available credit ratings on the Securitized Asset Cost Bonds, and APCo is authorized to provide the necessary credit enhancements, included in the recovery of related costs as On-going Financing Costs, to achieve such ratings.⁷

Security for the Securitized Asset Cost Bonds

APCo's utilization of a collection account, including a general subaccount, a capital subaccount and an excess funds subaccount within the SPE, is reasonable and appropriate. The SPE

⁷ Ordering Paragraph (23) authorizes APCo to make a capital contribution to the SPE. The "necessary credit enhancements" includable in On-Going Financing Costs, as identified in the above paragraph, refers to the ability to draw capital from the associated sub-account to ensure the timely payment of the interest and principal. Funds drawn down in this way would be replenished when the nonbypassable rate is subsequently trued-up.

sponsored by APCo may include other subaccounts in the collection account, if necessary, to obtain the targeted highest credit ratings on a series of Securitized Asset Cost Bonds.

Method of Tracing Funds

The Securitized Asset Cost Charges collected from Customers will be placed on a separate line on Customers' bills. APCo shall implement and maintain a method of tracing funds collected as Securitized Asset Cost Charges, or other proceeds of Securitized Asset Cost Property, that allows for the identification and segregation of such funds. This method shall include the use of a specific billing code for Securitized Asset Cost Charges, the deposit of such funds into designated collection accounts, and the maintenance of records sufficient to determine the identifiable cash proceeds of any Securitized Asset Cost Property subject to this Financing Order.

APCo as Initial Servicer of the Securitized Asset Cost Bonds

APCo's proposal to act as initial servicer of the Securitized Asset Cost Bonds is reasonable and appropriate. APCo will continue to act as servicer unless the Commission approves a change of control of APCo, or as otherwise provided in the Servicing Agreement.

The on-going servicing fee for APCo, acting as the initial servicer, in an annual amount of 0.05 percent of the initial principal amount of such series of the Securitized Asset Cost Bonds plus out-of-pocket expenses provided for in the Servicing Agreement, is necessary to compensate the servicer adequately on an arms-length basis and ensure the high credit quality of the Securitized Asset Cost Bonds. In the event a substitute servicer is required, and such substitute servicer is not affiliated with APCo, the annual servicer fee payable to such substitute servicer shall not exceed 0.60 percent of the initial principal amount of such series of Securitized Asset Cost Bonds unless such higher rate is approved by the Commission.

APCo as Administrator of the SPE

APCo's proposal to act as an administrator of the SPE under the proposed financing transaction is reasonable and appropriate.

The on-going fee to be paid to the administrator of \$100,000 per year, plus out-of-pocket expenses provided for in the Administration Agreement is necessary to cover the costs and expenses of administering the SPE and to preserve the integrity of the bankruptcy-remote structure of the SPE and the high credit quality of the Securitized Asset Cost Bonds.

On-going Financing Costs

The On-going Financing Costs identified in APCo's Petition and that are identified in Attachment 4 of the form Issuance Advice Letter ("IAL"), which is Appendix B to this Financing Order, qualify as Financing Costs eligible for recovery pursuant to Va. Code § 56-249.8:A.

It is appropriate for APCo to credit back to Customers all periodic servicing and administration fees in excess of APCo's or an affiliate of APCo's incremental cost of performing the servicer or administrator function in the next rate case when costs and revenues associated with the servicing and administration fees will be included in the cost of service, but only to the extent such crediting does not impair the targeted highest credit ratings on the Securitized Asset Cost Bonds.

Securitized Asset Cost Bonds to be Treated as "Debt" for Federal Income Tax Purposes

APCo shall structure the Securitized Asset Cost Bond transactions in a way that meets all requirements for the Internal Revenue Service's ("IRS") Revenue Procedure 2005-62, 2005-2 C.B. 507, as modified by Revenue Procedure 2024-15, 2024-12 I.R.B. 707.

SECURITIZED ASSET COST CHARGES

Imposition and Computation of Securitized Asset Cost Charges

To repay the Securitized Asset Cost Bonds and On-going Financing Costs, the SPE sponsored by APCo is authorized to impose the Securitized Asset Cost Charges to be collected by APCo acting as initial servicer, as a nonbypassable per-kWh charge from all Customers of APCo, irrespective of the generation supplier of such Customer, except for exempt retail access customers,⁸ until the Securitized Asset Cost Bonds and related Financing Costs are paid in full.

The Securitizable Balance to be financed using Securitized Asset Cost Bonds shall be determined in accordance with the calculation shown in Appendix A to this Financing Order.

The Securitized Asset Cost Charges shall be allocated among customer classes in accordance with the allocation methodology approved in APCo's most recent base rate case, as required by Va. Code § 56-249.8:B.2.a.8. The allocation methodology shall remain in effect for the duration of the recovery of the Securitized Asset Cost Charges, unless otherwise modified by order of the Commission in a subsequent base rate case. The allocation of Securitized Asset Cost Charges among customer classes shall exclude the pro rata obligations of any eligible customers who have elected to opt out of the Securitization in accordance with the Large Customer Opt-Out Provision of this Financing Order.

The Commonwealth of Virginia and its agencies, including the Commission, have pledged to and agree with bondholders, the owners of the Securitized Asset Cost Property, and other financing parties that the Commonwealth and its agencies, including the Commission, will not, except for changes made pursuant to the formulaic true-up mechanisms herein (collectively, the

⁸ While exempt retail access customers are described in the Securitization Statute and therefore addressed herein, the Commission finds that APCo does not have any exempt retail access customers as of the date of this Financing Order. Further, the Commission finds that future customers of APCo cannot qualify as exempt retail access customers.

“True-Up Mechanism”), reduce, alter, or impair the Securitized Asset Cost Charges until any and all principal, interest, premium, Financing Costs and other fees, expenses or charges incurred, and any contracts to be performed, in connection with the Securitized Asset Cost Bonds have been paid and performed in full, as further described in Va. Code § 56-249.8:K.1.d.

Subsequent to the transfer of Securitized Asset Cost Property to an assignee or the issuance of Securitized Asset Cost Bonds authorized herein, whichever is earlier, this Financing Order shall be irrevocable and, except for changes made pursuant to the formula-based mechanism authorized herein, the Commission shall not amend, modify, or terminate this Financing Order by any subsequent action or reduce, impair, postpone, terminate, or otherwise adjust Securitized Asset Cost Charges approved in the Financing Order. Upon issuance of this Financing Order, APCo shall retain sole discretion regarding whether to assign, sell, or otherwise transfer Securitized Asset Cost Property or to cause Securitized Asset Cost Bonds to be issued, including the right to defer or postpone such assignment, sale, transfer or issuance.

Treatment of Securitized Asset Cost Charges in Tariffs and on Retail Customer Bills

APCo is authorized and directed to include the Securitized Asset Cost Charge on each Customer’s bill as a separate line item and include both the rate and the amount of the charge on each bill as required by Va. Code § 56-249.8:D.2. and a statement that the SPE is the owner of the rights to the Securitized Asset Cost Charges and that APCo is acting as a servicer for the SPE as required by Va. Code § 56-249.8:D.1.

Base Rate Adjustments

APCo’s base rates, exclusive of the cost of Securitized Asset Cost Bonds, shall reflect the reduction of rate base associated with the securitization of utility plant balances, effective on the date proceeds from the issuance of the Securitized Asset Cost Bonds are received by APCo. This

requirement may be satisfied through the use of a temporary tracker or rider to credit customers the amount of the rate base reduction until such time as the reduction is reflected in base rates established in APCo's next base rate case. APCo shall file the necessary tariff sheets and supporting documentation with the Commission to implement this requirement.

True-Up of Securitized Asset Cost Charges

The True-Up Mechanism and associated procedures described in APCo's Tariff, and Appendices B, C and D hereto, are reasonable and appropriate and are hereby approved.

Class Allocation Adjustment for Significant Load Shifts

In addition to the True-Up Mechanism, the servicer shall have the right to effect a class allocation adjustment ("Class Allocation Adjustment") in the event of a significant and sustained change in the forecasted load of any customer class. For purposes of this provision, a significant change shall be deemed to have occurred if the forecasted load of any customer class for the upcoming remittance period is projected to increase or decrease by 10% or more compared to the original projected load for that class as set forth in this Financing Order or in the most recent application of the True-Up Mechanism or this Class Allocation Adjustment.

To effect such a change, the servicer shall file the proposed Class Allocation Adjustment with the Commission, including supporting data and analysis demonstrating the magnitude and expected duration of the load shift, the resulting impact on the allocation of Securitized Asset Cost Charges among customer classes, and the effective date for the adjustment which must be at least 30 days after the date of the filing with the Commission. Upon the servicer's submission of a Class Allocation Adjustment pursuant to this Financing Order, the Commission shall either administratively approve the requested allocation methodology in writing or inform the servicer that the requested allocation methodology does not allocate the burden of Securitized Asset Cost

Charges in a manner that is equitable among customer classes and provide the reasons for the Commission's determination. Upon administrative approval or the passage of 30 days without notification from the Commission regarding the Class Allocation Adjustment, no further action of the Commission will be required prior to implementation of the Class Allocation Adjustment. This Class Allocation Adjustment is distinct from the True-Up Mechanism, which is intended to address, as applicable, under- or over-collections and does not alter the allocation of Securitized Asset Cost Charges among customer classes.

JUST AND REASONABLE SECURITIZED ASSET COST CHARGES

Subject to the requirements and conditions of this Financing Order, the issuance of Securitized Asset Cost Bonds is in the public interest and the associated Securitized Asset Cost Charges are just and reasonable. Further, the IAL process can confirm that Customers will benefit, on a net present value basis, from the issuance.

ISSUANCE ADVICE LETTER PROCESS

After the final terms of an issuance of Securitized Asset Cost Bonds have been established, and before the issuance of such bonds, APCo shall determine the resulting initial Securitized Asset Cost Charge in accordance with this Financing Order. Such initial Securitized Asset Cost Charge shall be final and effective upon the issuance of the Securitized Asset Cost Bonds without further action by the Commission, provided that the initial charge is consistent with the terms of this Financing Order. To that end, because the actual structure and pricing of the Securitized Asset Cost Bonds are unknown as of the issuance of this Financing Order, following determination of the final terms of the Securitized Asset Cost Bonds and before issuance of the Securitized Asset Cost Bonds, APCo will submit to the Commission for each series of Securitized Asset Cost Bonds, an IAL, as well as a form of True-Up Adjustment Letter ("TUAL") in substantially the forms attached hereto

as Appendices B and C, respectively. In accordance with this Financing Order, the initial Securitized Asset Cost Charge and the final terms of the Securitized Asset Cost Bonds described in the IAL will be final unless before noon on the third business day after pricing of the Securitized Asset Cost Bonds the Commission issues a letter finding that the proposed issuance does not comply with the following standards of this Financing Order: (i) the aggregate principal amount of Securitized Asset Cost Bonds issued does not exceed the Securitizable Balance; (ii) the Securitized Asset Cost Bonds will be issued in one or more series comprised of one or more tranches having a scheduled final payment date of no longer than approximately 22 years; (iii) the Securitized Asset Cost Bonds have received a preliminary rating of the targeted highest rating (e.g., Aaa(sf) / AAA(sf)) from at least two of the three major rating agencies (i.e., S&P, Moody's and Fitch); (iv) the Securitized Asset Cost Bonds are structured to achieve substantially level debt service payments on an annual basis; (v) the issuance of the Securitized Asset Cost Bonds has been structured in accordance with IRS Rev. Proc. 2005-62, 2005-2 C.B. 507, as modified by Revenue Procedure 2024-15, 2024-12 I.R.B. 707; and (vi) the structuring and pricing of the Securitized Asset Cost Bonds resulted in reasonable Securitized Asset Cost Charges consistent with market conditions at the time the Securitized Asset Cost Bonds are priced and the terms and conditions set forth in this Financing Order (collectively, the "Standards of the Financing Order").

AUTHORITY

It is appropriate to grant APCo authority to establish (i) the terms and conditions of the Securitized Asset Cost Bonds, including but not limited to repayment schedules, expected interest rates, the issuance in one or more series consisting of one or more tranches with different maturity dates, and all other financing costs, and (ii) the terms and conditions of all ancillary documents related to the Securitized Asset Cost Bonds, including but not limited to the Servicing Agreement,

Administration Agreement, Indenture, Purchase and Sale Agreement, and any other agreements necessary to effectuate the Securitization, provided that such terms and conditions are consistent with this Financing Order and applicable law.

CONCLUSION

This Financing Order adheres to the statutory requirements outlined by the Securitization Statute necessary to issue a financing order authorizing an electric utility to finance securitized asset costs.

Accordingly, IT IS ORDERED THAT:

Incorporation

To the extent the findings of the Commission above include requirements for APCo, such requirements are incorporated as orders herein.

Approvals

(1) Approval of Petition. APCo's Petition for the issuance of a financing order pursuant to the Securitization Statute is approved, as provided in this Financing Order. An exemption from the requirements of Va. Code § 56-77 A for the affiliate contracts or arrangements is in the public interest and granted pursuant to Va. Code § 56-77 B.

(2) Authority to Recover Securitized Asset Costs. APCo's Petition for Financing Order authorizing the issuances sponsored by APCo of Securitized Asset Cost Bonds in one or more series is granted, subject to the terms set forth in this Financing Order. APCo is hereby authorized to sponsor the issuance of Securitized Asset Cost Bonds secured by the pledge of Securitized Asset Cost Property, in one or more series consisting of one or more tranches in an aggregate principal amount not to exceed the Securitizable Balance of approximately \$1,375,500,000 (as of the date the first series of Securitized Asset Cost Bonds are issued). The proceeds are to be used to finance approximately \$1,364,256,421 of Securitized Asset Costs, *minus* \$[0] of Aggregate Customer Opt-

Out Payments as defined in the Large Customer Opt-Out Provision of this Financing Order, *plus* Up-front Financing Costs of issuing the Securitized Asset Cost Bonds of approximately \$11,243,579, the sum of which is the Securitizable Balance.

Up-front Financing Costs and On-going Financing Costs are subject to update, adjustment and approval pursuant to the terms of this Financing Order through the IAL procedures as provided by this Financing Order. The issuance of the Securitized Asset Cost Bonds is in the public interest, and the Securitized Asset Cost Charges are just and reasonable. The structuring and pricing of the Securitized Asset Cost Bonds shall be reasonably expected to result in reasonable Securitized Asset Cost Charges consistent with market conditions at the time the Securitized Asset Cost Bonds are priced and the terms set forth in this Financing Order through the IAL procedures and TUAL procedures. The Commission further hereby grants APCo the authority to establish (i) the terms and conditions of the Securitized Asset Cost Bonds, including but not limited to repayment schedules, expected interest rates, the issuance in one or more series consisting of one or more tranches with different maturity dates, and all other financing costs, and (ii) the terms and conditions of all ancillary documents related to the Securitized Asset Cost Bonds, including but not limited to the Servicing Agreement, Administration Agreement, Indenture, Purchase and Sale Agreement, and any other agreements necessary to effectuate the Securitization, in each case provided that such terms and conditions are consistent with this Financing Order and applicable law.

(3) Recovery of Excess Up-front Financing Costs. APCo's approach for recovery of any prudently incurred excess amounts of Up-front Financing Costs is reasonable.

(4) Recovery of Securitized Asset Cost Charges. The SPE sponsored by APCo shall impose on, and APCo shall collect, as initial servicer, from all existing and future Customers of APCo, irrespective of the generation provider of such Customers, except for exempt retail access

customers, as provided in this Financing Order and any retail customer eligible to and electing to opt out of the Securitization pursuant to the Large Customer Opt-Out Provision, Securitized Asset Charges in an amount sufficient to provide for the timely recovery of its periodic payment requirement (including, without limitation, payment of principal and interest on the Securitized Asset Cost Bonds and On-going Financing Costs).

(5) Approval of Tariffs. The form of the Virginia jurisdictional Securitized Asset Cost Charge Tariff attached as Appendix D to this Financing Order is approved.

(6) True-Up Mechanism. The True-Up Mechanism identified in Appendix C to this Financing Order is approved and shall be applied at least annually to correct any overcollections or undercollections and to ensure the billing of amounts necessary to generate collections of the SAC Charge sufficient to timely provide payment of all amounts due on the Bonds and all other ongoing financing costs. The True-Up Mechanism will additionally be applied semi-annually (and at least quarterly beginning 12 months prior to the last scheduled final payment date of the last maturing tranche of a series of Securitized Asset Cost Bonds) if a servicer forecasts a shortfall in SAC Charge collections to ensure the amount of SAC Charges collected is sufficient to make all scheduled payments of principal of and interest on the Bonds and ongoing financing costs on a timely basis, including to replenish draws on the capital subaccount. In addition to these annual, semi-annual and quarterly mandatory true-up adjustments, APCo will also be authorized to apply the True-Up Mechanism to make interim true-up adjustments from time-to-time in order to ensure recovery of amounts sufficient to the timely and full payment of interest and scheduled principal on the Securitized Asset Cost Bonds and other required amounts and charges in connection with the Securitized Asset Cost Bonds.

(7) Form Agreements. The Commission finds good cause to authorize APCo to provide service to the SPE under the Servicing Agreement and for the Servicing Agreement to become effective upon issuance of the Securitized Asset Cost Bonds. The Commission finds good cause to authorize APCo to administer the SPE under the Administration Agreement and for the Administration Agreement to become effective upon issuance of the Securitized Asset Cost Bonds. The Commission finds good cause to authorize APCo to enter into the Purchase and Sale Agreement with the SPE to become effective upon issuance of the Securitized Asset Cost Bonds. The Commission finds good cause to authorize APCo to enter into the LLC Agreement for the SPE to become effective at any time prior to the issuance of the Securitized Asset Cost Bonds.

(8) Structure. The proposed transaction structure for the Securitized Asset Cost Bonds, as set forth in the body of this Financing Order is approved.

Reports and Accounting

(9) Issuance Advice Letter. Prior to the expected commencement of marketing of the Securitized Asset Cost Bonds, APCo shall provide a draft IAL (the “Draft IAL”) to the Commission no later than two weeks prior to the anticipated start of marketing activities for the Securitized Asset Cost Bonds, substantially in the form of Appendix B to this Financing Order (setting forth only such information that is known at the time). The Commission shall provide comments (if any) no later than one week from the date it received the Draft IAL. The purpose of the Draft IAL is to facilitate review and comment by the Commission prior to the finalization of the bond structure and terms.

APCo shall subsequently submit the IAL in final form (the “Final IAL”) to the Commission within one business day after actual pricing of the Securitized Asset Cost Bonds, substantially in the form of Appendix B to this Financing Order describing the final structure and terms of the

Securitized Asset Cost Bond issuance, including an updated accounting of the Up-front Financing Costs, and On-going Financing Costs. Finally, the Final IAL shall include a certification from APCo, that the structuring, pricing and Financing Costs of the Securitized Asset Cost Bonds achieved the Statutory Cost Objectives. The Commission's review of the Final IAL shall be limited to determining whether the transaction complies with the Standards of this Financing Order and whether APCo has delivered the required certification. Unless the Commission issues a disapproval letter stopping the Securitized Asset Cost Bond issuance before noon on the third business day after pricing, the transaction shall be final, irrevocable and incontestable and shall proceed without any further action of this Commission. The Commission shall only issue a disapproval letter to stop the transaction if the Commission determines that (i) the transaction does not comply with the Standards of this Financing Order, or (ii) APCo has not delivered the required certification regarding achievement of the Statutory Cost Objectives. Prior to the submission of the Final IAL and through the period ending with the issuance of the Securitized Asset Cost Bonds, APCo will, to extent requested by the Commission, provide the Commission or its Staff with timely information so that the Commission acting for itself or through its Staff can remain informed of all material aspects relating to the structuring and pricing of, and Financing Costs relating to the Securitized Asset Cost Bonds and participate as directed.

(10) True-Up Adjustment Letter. APCo or its assignee(s) are authorized to recover the periodic payment requirement and shall submit to the Commission at least semi-annually (and at least quarterly beginning 12 months prior to the last scheduled payment date of the latest maturing tranche of each series of Securitized Asset Cost Bonds) or when elected by APCo for interim true-ups, a TUAL as described in this Financing Order that shall be based upon the cumulative differences, regardless of the reason, between the periodic payment requirement and the actual

amount of Securitized Asset Cost Charge remittances to the trustee for the series of Securitized Asset Cost Bonds. Upon the servicer's submission of a TUAL made pursuant to this Financing Order, the Commission shall either administratively approve the requested true-up calculation in writing or inform the servicer of any mathematical or clerical errors in its calculation within 30 days following the servicer's true-up filing. Notification and correction of any mathematical or clerical errors shall be made so that the true-up is implemented within 30 days of the servicer's submission of a TUAL and no potential modification to correct an error in a TUAL shall delay its effective date and any correction or modification which could not be made prior to the effective date shall be made in the next TUAL. Upon administrative approval or the passage of 30 days without notification of a mathematical or clerical error, no further action of the Commission will be required prior to implementation of the true-up.

(11) Changes to Securitized Asset Cost Charges. Upon any change to Securitized Asset Cost Charges stemming from the True-Up Mechanism, APCo shall file appropriately-revised tariff sheets with the Commission, provided, however, that the effectiveness of the Securitized Asset Cost Charges shall not be delayed or otherwise adversely impacted by the Commission's decision with respect to the tariff.

(12) Imposition and Collection, Nonbypassability. APCo, including its sponsored SPE, is authorized to impose, bill, charge, collect, receive, and adjust from time to time pursuant to the True-Up Mechanism (as described in this Financing Order) a Securitized Asset Cost Charge, to be collected from each of its existing and future Customers, irrespective of the generation supplier of such Customer, except for any exempt retail access customers, until the related Securitized Asset Cost Bonds are paid in full and all related Financing Costs and other costs of the bonds have been recovered in full. Such Securitized Asset Cost Charges shall be nonbypassable charges that are

separate and apart from APCo's base rates and shall be paid by all Customers of APCo or its successors or assignees under Commission-approved rate schedules as provided in this Financing Order. Such Securitized Asset Cost Charges shall be in amounts sufficient to ensure the timely payment of APCo's Securitized Asset Cost Bonds as detailed in this Financing Order and the Final IAL (including payment of principal of and interest on the Securitized Asset Cost Bonds and On-going Financing Costs).

(13) Allocation. The Securitized Asset Cost Charges shall be allocated to the Customer classes in accordance with the methodology approved in APCo's base rate case, Case No. PUR-2024-00024. The Commission further orders that APCo shall implement the Large Customer Opt-Out Provision as set forth in this Financing Order, including providing timely notice to eligible customers, processing opt-out elections, and ensuring that the obligations of such customers are excluded from the Securitized Asset Cost Charges recovered through the issuance of the Securitized Asset Cost Bonds.

(14) Approval of Class Allocation Adjustment Mechanism. In addition to the True-Up Mechanism, the servicer shall have the right to effect a Class Allocation Adjustment in the event of a significant and sustained change in the forecasted load of any customer class. For purposes of this provision, a significant change shall be deemed to have occurred if the forecasted load of any customer class for the upcoming remittance period is projected to increase or decrease by 10% or more compared to the original projected load for that class as set forth in this Financing Order or in the most recent application of the True-Up Mechanism or this Class Allocation Adjustment.

To effect such a change, the servicer shall file the proposed Class Allocation Adjustment with the Commission, including supporting data and analysis demonstrating the magnitude and expected duration of the load shift, the resulting impact on the allocation of Securitized Asset Cost

Charges among customer classes, and the effective date for the adjustment which must be at least 30 days after the date of the filing with the Commission. Upon the servicer's submission of a Class Allocation Adjustment pursuant to this Financing Order, the Commission shall either administratively approve the requested allocation methodology in writing or inform the servicer that the requested allocation methodology does not allocate the burden of Securitized Asset Cost Charges in a manner that is equitable among customer classes and provide the reasons for the Commission's determination. Upon administrative approval or the passage of 30 days without notification from the Commission regarding the Class Allocation Adjustment, no further action of the Commission will be required prior to implementation of the Class Allocation Adjustment. This Class Allocation Adjustment is distinct from the True-Up Mechanism, which is intended to address, as applicable, under- or over-collections and does not alter the allocation of Securitized Asset Cost Charges among customer classes.

(15) Collection Period. This Financing Order and the Securitized Asset Cost Charges authorized hereby shall remain in effect until the Securitized Asset Cost Bonds and all Financing Costs (including tax liabilities) related thereto have been paid or recovered in full. This Financing Order shall remain in effect and unabated notwithstanding the reorganization, bankruptcy or other insolvency proceedings of APCo or its successors or assignees.

(16) Following repayment of Securitized Asset Cost Bonds and the relevant Financing Costs authorized in this Financing Order and release of the funds by the indenture trustee, each SPE shall distribute the final balance of its collection account to APCo and APCo shall credit other electric rates and charges by a like amount, less the amount of the relevant capital subaccount and any unpaid return on invested capital due to APCo as set forth in the body of this Financing Order.

(17) Ownership Notification and Separate Line-Item Charge. The electric bills of APCo must explicitly reflect the rate and amount of the Securitized Asset Cost Charges on each bill and that a portion of the charges on such bill represents Securitized Asset Cost Charges approved in this Financing Order and must include a statement to the effect that the SPE is the owner of the rights to Securitized Asset Charges and that APCo is acting as servicer for the SPE. The tariff applicable to Customers must indicate the Securitized Asset Cost Charges and the ownership of that charge. APCo shall identify amounts owed with respect to its Securitized Asset Cost Property as a separate line item on individual electric bills.

Securitized Asset Cost Property

(18) Outside Costs. Costs associated with the Commission's outside consultant and any outside counsel, to the extent such costs are eligible for compensation and approved for payment under the terms of such party's contractual arrangements with the Commission, as such arrangements may be modified by any amendment entered into at the Commission's sole discretion, will qualify as Up-front Financing Costs and be paid from proceeds of Securitized Asset Cost Bonds.

(19) Creation of Securitized Asset Cost Property. The creation of APCo's Securitized Asset Cost Property as described in this Financing Order is approved and, upon transfer of the Securitized Asset Cost Property to the SPE, shall be created, and shall consist of: (i) all rights and interests of APCo or its successors or assignees under this Financing Order, including the right to impose, bill, charge, collect and receive Securitized Asset Cost Charges authorized in this Financing Order and as initial servicer to obtain periodic adjustments to such charges as provided in this Financing Order, and (ii) all revenues, collections, claims, rights to payments, payments, money or proceeds arising from the rights and interests specified in this Financing Order, regardless of whether such revenues, collections, claims, rights to payment, payments, money or proceeds are

imposed, billed, charged, collected or received with, or maintained together with or commingled with other revenues, collections, rights to payment, payments, money or proceeds. The creation of Securitized Asset Cost Property is conditioned upon, and shall be simultaneous with, the sale or other transfer of the Securitized Asset Cost Property to the SPE, the issuance of the Securitized Asset Cost Bonds and the pledge of the Securitized Asset Cost Property to secure a series of Securitized Asset Cost Bonds.

(20) True Sale. Any sale, assignment, or other transfer of Securitized Asset Cost Property pursuant to this Financing Order shall be an absolute transfer and true sale of, and not a pledge of or secured transaction relating to, the transferor's right, title, and interest in, to, and under the Securitized Asset Cost Property, provided that the documents governing the transaction expressly state that the transaction is a sale or other absolute transfer other than for federal and state income tax purposes. A transfer of an interest in Securitized Asset Cost Property shall occur only when all of the following have occurred: (i) this Financing Order creating the Securitized Asset Cost Property has become effective; (ii) the documents evidencing the transfer of Securitized Asset Cost Property have been executed by APCo and the SPE; and (iii) value is received by APCo for the Securitized Asset Cost Property. Furthermore, the characterization of the sale, assignment, or other transfer as an absolute transfer and true sale, and the corresponding characterization of the interest of the SPE as an ownership interest, shall not be affected or impaired by the occurrence of any of the factors described in this Financing Order.

(21) Securitized Asset Cost Property Existence. The Securitized Asset Cost Property shall exist until the Securitized Asset Cost Bonds are paid in full and all Financing Costs and other related costs have been recovered in full.

(22) Irrevocability. Upon the earlier of either (i) the transfer of the Securitized Asset Cost Property or (ii) issuance of the Securitized Asset Cost Bonds, this Financing Order is irrevocable and, except for changes made pursuant to the formula-based mechanism authorized in this Financing Order, the Commission may not amend, modify, or terminate this Financing Order by any subsequent action or reduce, impair, postpone, terminate or otherwise adjust the Securitized Asset Cost Charges approved in this Financing Order.

Structure of Securitization

(23) SPE. APCo is authorized to utilize one or more SPEs to be structured as discussed in this Financing Order. APCo is authorized to execute one or more LLC Agreements, consistent with the form to be filed with the Commission and the terms and conditions of this Financing Order. Each SPE established by APCo for the purpose of issuing Securitized Asset Cost Bonds shall, at all times, have at least one independent manager or director (the “Independent Manager”). The approval of the Independent Manager(s) shall be required for the SPE to take certain significant actions: (i) instituting or consenting to the institution of bankruptcy, insolvency, or similar proceedings with respect to the SPE; (ii) dissolving, liquidating, consolidating, merging, or selling all or substantially all of the assets of the SPE; or (iii) amending the organizational documents of the SPE in a manner that would adversely affect the bankruptcy-remote status of the SPE or the interests of the holders of the Securitized Asset Cost Bonds.

Furthermore, the SPE shall be funded with an amount of capital that is sufficient for the SPE to carry out its intended functions as contemplated in the Petition and this Financing Order. The Commission approves an initial capital contribution of 0.5 percent of the initial aggregate principal amount of a series of Securitized Asset Cost Bonds or such other amount required to obtain the highest credit ratings. The capital contributions by APCo to the SPE shall be funded by

APCo and not from the proceeds of the sale of Securitized Asset Cost Bonds. APCo will be permitted to earn a rate of return on its invested capital in its SPE equal to the authorized pre-tax weighted average cost of capital established in APCo's most recent base rate case and this return on invested capital should be a component of the periodic payment requirement.

(24) Servicing and Administration Fees. The servicing and administration fees collected by APCo or any affiliate of APCo, acting as either the servicer or the administrator under the Servicing Agreement or Administration Agreement, respectively, will be included in APCo's cost of service such that APCo will credit back all periodic servicing fees in excess of APCo's or an affiliate of APCo's incremental costs of performing servicing as administration functions, but only to the extent the targeted highest credit ratings on the Securitized Asset Cost Bonds are not impaired. The expenses incurred by APCo or such affiliate to perform obligations under the Servicing Agreement or Administration Agreement not otherwise recovered through the Securitized Asset Charges will likewise be included in APCo's cost of service. In the event a substitute servicer shall be required, and such substitute servicer is not affiliated with APCo, the annual servicing fee for such substitute servicer shall not exceed 0.60 percent of the initial principal amount of the applicable series of Securitized Asset Cost Bonds.

(25) APCo as Servicer. APCo shall act as initial servicer under the proposed financing transaction and is granted flexibility to act as initial servicer pursuant to the Servicing Agreement discussed in this Financing Order.

(26) Third Party Providers. If the Commonwealth of Virginia or the Commission decides to allow billing, and collection of charges, including the Securitized Asset Charges, by a third-party provider within the APCo service territory, such authorization will be consistent with the rating

agencies' requirements necessary for the Securitized Asset Cost Bonds to receive and maintain the targeted highest credit rating.

(27) Issuance. In accordance with the terms of this Financing Order and subject to the criteria and procedures described herein, the SPE is authorized to issue Securitized Asset Cost Bonds in an aggregate principal amount not to exceed the Securitizable Balance (as of the date the Securitized Asset Cost Bonds are issued) and may pledge to an indenture trustee, as collateral for payment of the Securitized Asset Cost Bonds, the Securitized Asset Cost Property, including the SPE's right to receive the related Securitized Asset Cost Charges as and when collected, the SPE's rights under the Servicing Agreement and other collateral described in the Indenture. As provided in Va. Code § 56-249.8:B.2.e, APCo retains sole discretion regarding whether to assign, sell or otherwise transfer Securitized Asset Property or to cause the Securitized Asset Cost Bonds to be issued, including the right to defer or postpone such assignment, sale, transfer or issuance and the Commission will not refuse to allow APCo to recover Securitized Asset Costs in an otherwise permissible fashion.

(28) IRS Safe Harbor Provisions. APCo shall be responsible to structure the Securitized Asset Cost Bond transactions in a way that complies with the "safe harbor" provisions of IRS Revenue Procedure 2005-62, 2005-2 C.B. 507, as modified by Revenue Procedure 2024-15, 2024-12 I.R.B. 707.

(29) Commission and Commonwealth Pledges. The Commission, on behalf of itself and the Commonwealth in accordance with the Securitization Statute, pledges and agrees with the holders of the Securitized Asset Cost Bonds, the owners of the Securitized Asset Cost Property, and other financing parties that the Commission and the Commonwealth and its agencies shall not take any action to: (i) alter the provisions of the Securitization Statute that authorize the Commission to

create an irrevocable contract right or chose in action by the issuance of this Financing Order, to create securitized asset cost property in the form of the Securitized Asset Cost Property, and to make the securitized asset cost charges imposed by this Financing Order in the form of the Securitized Asset Cost Charges irrevocable, binding, or non-bypassable charges; (ii) take or permit any action that impairs or would impair the value of the Securitized Asset Cost Property or the security for the Securitized Asset Cost Bonds or revises the Securitized Asset Costs for which recovery is authorized; (iii) in any way impair the rights and remedies of the bondholders, assignees, and other financing parties related thereto; or (iv) except for changes made pursuant to the formula-based adjustment mechanism authorized under this Financing Order, reduce, alter, or impair Securitized Asset Cost Charges that are to be imposed, billed, charged, collected, and remitted for the benefit of such bondholders, assignees, and financing parties until any and all principal, interest, premium, financing costs and other fees, expenses, or charges incurred, and any contracts to be performed, in connection with the related Securitized Asset Cost Bonds have been paid and performed in full.

(30) Inclusion of Pledges and Effect. The SPE issuing Securitized Asset Cost Bonds is authorized, pursuant to Va. Code § 56-249.8:K.2. and this Financing Order, to include the Commonwealth of Virginia pledge, and a pledge by the Commission, with respect to Securitized Asset Cost Property and Securitized Asset Cost Bonds and related documentation as provided for in Va. Code § 56-249.8:K.1. The Commission finds that these pledges will constitute pledges of the Commonwealth and Commission to bondholders, the owners of Securitized Asset Cost Property, the SPE issuing Securitized Asset Cost Bonds, and other financing parties. The Commission further acknowledges that the SPE issuing the Securitized Asset Cost Bonds would be considered one of the financing parties for purposes of Va. Code § 56-249.8:K.

(31) This case is dismissed.

Commissioner [Name] participated in this matter.

A COPY hereof shall be sent electronically by the Clerk of the Commission to all persons on the official Service List in this matter. The Service List is available from the Clerk of the Commission.

Appendix A**SUMMARY OF CALCULATION OF APCO'S SECURITIZABLE BALANCE**

(In Thousands)

| | |
|---|--------------------------|
| Estimated Securitized Asset Costs | \$1,364,256 |
| Estimated Aggregate Customer Opt-Out Payments | <u>\$[0]¹</u> |
| Estimated Up-front Financing Costs ² | <u>\$11,243</u> |
| Estimated Principal Amount Securitized Asset Cost Bonds | \$1,375,500 |

¹ To be determined based on the Aggregate Customer Opt-Out Payments, if any. The amount of Aggregate Customer Opt-Out Payments, if any, will affect the Securitizable Balance as a result.

² Final Up-Front Financing Costs to be included in the Issuance Advice Letter.

Appendix B**[Form of Issuance Advice Letter]**

[], 20__

VIA ELECTRONIC SUBMISSION

To the State Corporation Commission:

In compliance with the terms of the Financing Order issued by the State Corporation Commission (the “Commission”) in Case No. [●] (the “Financing Order”), Appalachian Power Company (“APCo”) is submitting to the Commission this Issuance Advice Letter with respect to the Securitized Asset Cost Bonds described in the “Issuance Information” section below. Any terms not defined in this Issuance Advice Letter will have the meanings ascribed to those terms in either the Financing Order or Va. Code § 56-249.8.

In the Financing Order, the Commission requires APCo to submit to the Commission an Issuance Advice Letter for the Securitized Asset Cost Bonds within one business day after determination of the final terms of the Securitized Asset Cost Bonds but before the issuance of the Securitized Asset Cost Bonds.

Final Structure and Terms:

Under the Financing Order, the Commission requires the Issuance Advice Letter to describe the final structure and terms of the Securitized Asset Cost Bond issuance, including an updated accounting of the Up-front Financing Costs, and On-going Financing Costs. The final structure and terms of the Securitized Asset Cost Bonds to be issued in accordance with this Issuance Advice Letter are as follows:

Name of Securitized Asset Cost Bonds: []

Name of SPE: []

Name of Securitized Asset Cost Bond Trustee: []

Pricing Date: []

Expected Closing Date: []

Preliminary Bond Ratings:¹ Moody’s, [Aaa(sf)]; Standard & Poor’s, [AAA(sf)]; Fitch, [AAAsf] (final ratings to be received prior to closing)

Total Principal Amount of Securitized Asset Cost Bonds (equal to Securitized Asset Costs plus Up-front Financing Costs): \$[] (See Attachment 1)

Estimated Up-front Financing Costs: \$[] (See Attachment 2)

Interest Rates and Expected Amortization Schedules (See Attachment 3)

Distributions to Investors: Semi-annually

Weighted Average Coupon Rate:² []%Annualized Weighted Average Yield:³ []%

¹ APCo anticipates receiving bond ratings from at least two of the three major rating agencies.

² Weighted by modified duration and principal amount of each tranche.

³ Weighted by modified duration and principal amount, calculated including selling commissions.

Appendix B

Initial Balance of Capital Subaccount: \$[]
 Estimated/Actual On-going Financing Costs for first year of Securitized Asset Cost Bonds:
 \$[] (See Attachment 4)

Certification by APCo:

Under the Financing Order, the Commission also requires a certification from APCo that the structuring, pricing and Financing Costs of the Securitized Asset Cost Bonds achieved the Statutory Cost Objectives. APCo's certification is set forth in Attachment 5, which also includes the statement of the actions taken by APCo to achieve the Statutory Cost Objectives as required by the Financing Order.

Review by the Commission:

Under the Financing Order, unless the Commission issues a letter stopping the Securitized Asset Cost Bond issuance before noon on the third business day after the pricing date, the transaction shall be final, irrevocable and incontestable and shall proceed without any further action of the Commission.

Under the Financing Order, the Commission shall only issue a letter to stop the transaction if the Commission determines that (a) the transaction does not comply with the Standards of the Financing Order, or (b) APCo has not delivered the required certification.

As further detailed in the Financing Order, the Standards of the Financing Order are as follows:

- the aggregate principal amount of Securitized Asset Cost Bonds issued does not exceed the Securitizable Balance;
- [each tranche of] the Securitized Asset Cost Bonds [have / has] a scheduled final payment date of no longer than approximately [●] years;
- the Securitized Asset Cost Bonds have received a preliminary rating of targeted highest rating (e.g., Aaa(sf) / AAA(sf)) from at least two of the three major rating agencies;
- the Securitized Asset Cost Bonds are structured to achieve substantially level debt service payments on an annual basis;
- the issuance of the Securitized Asset Cost Bonds has been structured in accordance with IRS Rev. Proc. 2005-62, 2005-2 C.B. 507, as modified by Revenue Procedure 2024-15, 2024-12 I.R.B. 707; and
- the structuring and pricing of the Securitized Asset Cost Bonds resulted in reasonable Securitized Asset Cost Charges consistent with market conditions at the time of pricing the Securitized Asset Cost Bonds and the terms set forth in the Financing Order.

Appendix B

Respectfully Submitted,

Appalachian Power Company

Appendix B

Attachment 1

TOTAL PRINCIPAL AMOUNT OF SECURITIZED ASSET COST BONDS TO BE ISSUED (TOTAL AMOUNT OF SECURITIZED ASSET COST AND UP-FRONT FINANCING COSTS TO BE FINANCED)

| | |
|---|----|
| Securitized asset costs | \$ |
| Estimated Up-front Financing Costs included in Proposed | \$ |
| Total Securitized Asset Cost Bond Issuance (rounded up) | \$ |

Appendix B**Attachment 2****ESTIMATED UP-FRONT FINANCING COSTS**

| | |
|--|-----------|
| Legal Fees | \$ |
| Fee for Commission Financial Advisor & Company's Structuring Advisor | \$ |
| Printing / EDGARizing Expenses | \$ |
| Miscellaneous Administrative Costs | \$ |
| Rating Agency Fees | \$ |
| Accounting Fees | \$ |
| Servicer Set-up Costs | \$ |
| Trustee's Fees and Expenses | \$ |
| Underwriters' Fees and Expenses | \$ |
| SEC Fees | \$ |
| Original Issue Discount | \$ |
| Miscellaneous Fees and Expenses | \$ |
| TOTAL ESTIMATED UP-FRONT FINANCING COSTS | \$ |

Appendix B

Attachment 3

EXPECTED AMORTIZATION SCHEDULE

A. General Terms

| Tranche | Price | Coupon | Average Life | Scheduled Final Payment | Legal Final Maturity |
|---------|-------|--------|--------------|-------------------------|----------------------|
| | | | | | |

B. Scheduled Amortization Requirement of Securitized Asset Cost Bonds

[illegible][illegible]

[illegible]

Appendix B**Attachment 4****ESTIMATED ANNUAL ON-GOING FINANCING COSTS**

| | Annual Amount |
|--|---------------|
| Ongoing Servicer Fee ⁴ | \$ |
| Administration Fee | \$ |
| Accounting Fees | \$ |
| Legal Fees | \$ |
| Trustee Fees and Expenses | \$ |
| Independent Manager Fees | \$ |
| Rating Agency Fees | \$ |
| Return on Invested Capital | \$ |
| Regulatory Assessment Fees | \$ |
| Miscellaneous Fees and Expenses | \$ |
| TOTAL ESTIMATED ANNUAL ON-GOING FINANCING COSTS | \$ |

⁴ Low end of the range assumes APCo is the servicer (0.05%). Upper end of the range reflects an alternative servicer (0.60%), unless some higher fee is otherwise approved by the Commission.

Appendix B**Attachment 5**

CERTIFICATION
OF
APPALACHIAN POWER COMPANY

[_____, 20__]

VIA ELECTRONIC SUBMISSION

To the State Corporation Commission:

In compliance with the terms of the Financing Order issued by the State Corporation Commission (the "Commission") in Case No. [•] (the "Financing Order"), Appalachian Power Company ("APCo") submits this Certification. All capitalized terms not defined in this letter shall have the meanings ascribed to them in the Financing Order.

In its Issuance Advice Letter dated [_____, 20__], APCo has set forth the following particulars of the Securitized Asset Cost Bonds:

Name of Securitized Asset Cost Bonds: []
 Name of SPE: []
 Name of Securitized Asset Cost Bond Trustee: []
 Pricing Date: []
 Expected Closing Date: []
 Preliminary Bond Ratings:⁵ Moody's; [Aaa(sf)]; Standard & Poor's, [AAA(sf)]; Fitch, [AAAsf] (final ratings to be received prior to closing)
 Total Principal Amount of Securitized Asset Cost Bonds (equal to Securitized Asset Costs plus Up-front Financing Costs): \$[]
 Estimated Up-front Financing Costs: \$[]
 Interest Rates and Expected Amortization Schedules of the Securitized Asset Cost Bonds and
 Distributions to Investors: Semi-annually
 Weighted Average Coupon Rate:⁶ []%
 Annualized Weighted Average Yield:⁷ []%
 Initial Balance of Capital Subaccount: \$[]
 Estimated/Actual On-going Financing Costs for first year of Securitized Asset Cost Bonds:
 \$[]

⁵ APCo anticipates receiving bond ratings from at least two of the three major rating agencies.

⁶ Weighted by modified duration and principal amount of each tranche.

⁷ Weighted by modified duration and principal amount, calculated including selling commissions.

Appendix B

In accordance with the procedures set forth in the Financing Order, the following actions were taken in connection with the structuring and pricing of the Securitized Asset Cost Bonds and the determination of the related financing costs in order to satisfy the Statutory Cost Objectives:

- [Included credit enhancements in the form of the true-up mechanism and an equity contribution to [] of 0.50% of the original principal amount of the bonds;
- Developed rating agency presentations and worked actively with the rating agencies during the rating agency process to achieve Aaa(sf) / AAAsf from at least two of the three major rating agencies;
- Worked to select key transaction participants, including lead underwriters and co-managers through an RFP process to determine that they have relevant experience and execution capabilities, and who were aligned with APCo's objectives, namely broad distribution to investors and willingness to market the bonds in a manner consistent with the superior credit quality and uniqueness of the bonds;
- Hired a diverse group of underwriters, including underwriters with international and mid-tier expertise in order to attract a wide variety of potential investors;
- Reviewed detailed marketing plans submitted by each lead underwriter;
- Allowed sufficient time for investors to review [relevant marketing materials] and the preliminary prospectus and to ask questions regarding the transaction;
- Attended telephonic pre-marketing investor meetings in [_____];
- Arranged issuance of rating agency pre-sale reports during the marketing period;
- During the period that the bonds were marketed, held several market update discussions with the underwriting team and the to develop recommendation for pricing;
- Had multiple conversations with all of the members of the underwriting team during the marketing phase in which we stressed the requirements of the Financing Order;
- Developed and implemented a marketing plan designed to encourage each of the underwriters to aggressively market the bonds to a broad base of prospective corporate and asset backed securities investors;
- Conducted in person and telephonic roadshows with over [] investors in [] cities;
- Provided other potential investors with access to an internet roadshow for viewing at investors' convenience;
- Adapted the bond offering to market conditions and investor demand at the time of pricing consistent with the guidelines outlined within the Financing Order. Variables impacting the final structure of the transaction were evaluated including the length of

Appendix B

the average lives and maturity of the bonds and the 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 the highest rating possible; and

- Developed bond allocations, underwriter compensation and preliminary price guidance designed to achieve customer savings.]

Based on the statutory criteria and procedures, the record in this proceeding, and other provisions of the Financing Order, APCo certifies the statutory requirements for issuance of the Securitized Asset Cost Bonds have been met, specifically that the imposition and collecting of the Securitized Asset Cost Charges as authorized by the Financing Order provides quantifiable benefits to customers of APCo as compared to the costs that would have been incurred absent the issuance of the Securitized Asset Cost Bonds and that the structuring, pricing and financing costs of the Securitized Asset Cost Bonds are reasonably expected to result in reasonable Securitized Asset Cost Charges consistent with market conditions at the time the Securitized Asset Cost Bonds are priced and the terms set forth in the Financing Order. For purposes of this certification, “quantifiable benefits to customers” includes a positive net present value calculation compared to traditional cost recovery methods. Updated bond pricing, Staff’s cash flow rendering, and an updated weighted average cost of capital were incorporated in such net present value calculations.

This certification is being provided to the Commission by APCo in accordance with the terms of the Financing Order, and no one other than the Commission shall be entitled to rely on the certification provided herein for any purpose.

Respectfully Submitted,

Appalachian Power Company

Appendix C

[Company Address]

BY ELECTRONIC SUBMISSION

DATE

[Name]

Document Control Center
State Corporation Commission of Virginia
1300 East Main Street
Richmond, Virginia 23219

[Form of True-Up Adjustment Letter]

*Petition of Appalachian Power Company,
For a financing order authorizing the issuance of securitized asset cost bonds
pursuant to Va. Code § 56-249.8*

Case No. [●]

Dear [Name]:

Pursuant to the Virginia State Corporation Commission's ("Commission") [____, 20__] Order in Case No. [●] (the "Financing Order"), Appalachian Power Company ("APCo") as Servicer of the securitized asset cost bonds ("Securitized Asset Cost Bonds") has filed a request for an adjustment to the securitized asset cost charges ("Securitized Asset Cost Charges"). This adjustment is intended to satisfy the requirements of Va. Code § 56-249.8:B.2.d, and the Financing Order by ensuring that the Securitized Asset Cost Charges will recover amounts sufficient to timely provide for payments of debt service and other required amounts in connection with the Securitized Asset Cost Bonds. Per the Financing Order, APCo will submit at least semi-annually (and at least quarterly beginning 12 months prior to the last scheduled payment date of the latest maturing tranche of this series of Securitized Asset Cost Bonds or when elected by APCo for interim true-ups) a letter in this docket for Commission review, as described in Va. Code § 56-249.8:B.2.D. and in the form attached thereto ("True-up Adjustment Letter" or, "TUAL"). The Securitized Asset Cost Bonds were issued on [____, 20__]. APCo filed its first True-Up Adjustment Letter on [____, 20__].

Ordering Paragraph 10 of the Financing Order describes how such True-Up Adjustment Letters are to be handled:

Upon the servicer's submission of a TUAL made pursuant to this Financing Order, the Commission shall either administratively approve the requested true-up calculation in writing or inform the servicer of any mathematical or clerical errors in its calculation within 30 days following the servicer's true-up filing. Notification

Appendix C

and correction of any mathematical or clerical errors shall be made so that the true-up is implemented within 30 days of the servicer's submission of a TUAL and no potential modification to correct an error in a TUAL shall delay its effective date and any correction or modification which could not be made prior to the effective date shall be made in the next TUAL. Upon [administrative approval] or the passage of 30 days without notification of a mathematical or clerical error, no further action of the Commission will be required prior to implementation of the true-up.

Attached is the Revised Sheet No. [] reflecting the change in the Securitized Asset Cost Charges.

Per APCo's request in its True-Up Adjustment Letter and in accordance with the Financing Order, the proposed adjustments to the Securitized Asset Cost Charges will be effective on [_____, 20__].

Respectfully submitted,

Appalachian Power Company

Enclosures

Appendix C

Appalachian Power Company
Securitized Asset Cost Charge True-up Mechanism Form
For Securitized Asset Cost Charge to be effective _____

| | | | | | | | | |
|--|------------|--------------|-------------|--------------|-----------|--------------------|-------------|--------------|
| Prior Period True-Up | | | | | | | | |
| Beginning Excess Subaccount Balance as of [date] (a) | - | | | | | | | |
| Inflows | - | | | | | | | |
| Collections (b) | - | | | | | | | |
| Interest Earned (c) | - | | | | | | | |
| Total Inflows | - | | | | | | | |
| Outflows | - | | | | | | | |
| Principal | - | | | | | | | |
| Interest | - | | | | | | | |
| Expenses | - | | | | | | | |
| Total Outflows (d) | - | | | | | | | |
| Net Surplus/(Shortfall) | - | | | | | | | |
| Write-off Allowance (e) | - | | | | | | | |
| Shortfall Revenue Requirement (f) | - | | | | | | | |
| Prior Period Over/(Under) | - | | | | | | | |
| | (a) | (b) | (c) | (d) | (e) | (f) | a+b+c+d+e+f | |
| | Beginning | Prior Period | Interest | Prior Period | Write-off | Forecasted Payment | True-up | |
| SAC Rate Class | Percentage | Acct Balance | Collections | Earned | Outflows | Allowance | Shortfall | Over/(Under) |
| Residential (RS) | 61.32% | - | - | - | - | - | - | - |
| Commercial - Secondary (SGS, SWS) | 4.96% | - | - | - | - | - | - | - |
| Commercial - Secondary OAD (SGS, SWS) | 0.00% | - | - | - | - | - | - | - |
| Commercial - Primary (SGS) | 0.02% | - | - | - | - | - | - | - |
| Commercial - Primary OAD (SGS) | 0.00% | - | - | - | - | - | - | - |
| Commercial - Secondary GS | 14.47% | - | - | - | - | - | - | - |
| Commercial - Secondary GS OAD | 0.00% | - | - | - | - | - | - | - |
| Commercial - Primary GS | 1.31% | - | - | - | - | - | - | - |
| Commercial - Primary GS OAD | 0.01% | - | - | - | - | - | - | - |
| Commercial - Subtransmission GS | 0.08% | - | - | - | - | - | - | - |
| Commercial - Subtransmission GS OAD | 0.00% | - | - | - | - | - | - | - |
| Commercial - Transmission GS | 0.01% | - | - | - | - | - | - | - |
| Commercial - Transmission GS OAD | 0.00% | - | - | - | - | - | - | - |
| Commercial - Lighting (OL) | 0.10% | - | - | - | - | - | - | - |
| Commercial - Lighting OAD (OL) | 0.00% | - | - | - | - | - | - | - |
| Commercial - GS TOD, LGS TOD Secondary | 0.34% | - | - | - | - | - | - | - |
| Commercial - GS TOD, LGS TOD Primary | 0.00% | - | - | - | - | - | - | - |
| Industrial - Secondary (LPS) | 0.87% | - | - | - | - | - | - | - |
| Industrial - Secondary OAD (LPS) | 0.00% | - | - | - | - | - | - | - |
| Industrial - Primary (LPS) | 8.03% | - | - | - | - | - | - | - |
| Industrial - Primary OAD (LPS) | 0.02% | - | - | - | - | - | - | - |
| Industrial - Subtransmission (LPS) | 6.58% | - | - | - | - | - | - | - |
| Industrial - Subtransmission OAD (LPS) | 0.00% | - | - | - | - | - | - | - |
| Industrial - Transmission (LPS) | 1.88% | - | - | - | - | - | - | - |
| Industrial - Transmission OAD (LPS) | 0.00% | - | - | - | - | - | - | - |
| Total | | - | - | - | - | - | - | - |

Form of Securitized Asset Cost Charge Rate Schedule

(See attached.)

APPALACHIAN POWER COMPANY

Appendix D
Sheet No.-NBP-XXD

VA. S.C.C. TARIFF NO. 28

RIDER O.A.D. S.A.C.

(Open Access Distribution Service - Securitized Asset Cost Rider)

AVAILABILITY OF SERVICE

Effective with service rendered on or after Month Day, YEAR, the rates in Securitized Asset Cost Rider will be applied to all customer bills, rendered under the applicable Standard and F.O.A.D. Schedules or Special Contracts. The S.A.C. Rider shall be calculated by multiplying the kWh's of energy and kW's of demand by the rates below:

Issued:**Pursuant to Final Order****Dated:****Case PUR-2025-00116****Effective:**

APPALACHIAN POWER COMPANY

Appendix D
Sheet No.-NBP-XXD

VA. S.C.C. TARIFF NO. 28

RIDER O.A.D. S.A.C.
(Open Access Distribution Service - Securitized Asset Cost Rider)

| Summary of Demand and Energy Surcharges | | | |
|---|------------------------|-----------------------|--|
| | Energy (\$ per kWh) | Demand (\$ per kW) | Demand (Off-Peak Excess) (\$ per kW) |
| Residential - (011,013,014,015,019,020,051,054) | 0.00xxx | | |
| Residential - TOD (030,031,036) | 0.00xxx | | |
| | 0.00xxx | | |
| SWS (222) | 0.00xxx | | |
| SGS - (231,233,234,213,281) | 0.00xxx | | |
| SGS - LMTOD (225,226) | 0.00xxx | | |
| | 0.00xxx | | |
| GS-TOD-Secondary (229,230) | On Peak 0.000xx | | |
| | Off Peak 0.000xx | | |
| GS-TOD-Primary(227) | On Peak 0.000xx | | |
| | Off Peak 0.000xx | | |
| GS-Secondary-(261)-Block 1 | 0.00xxx | 0.xx | 0.xx |
| Block 2 | 0.00xxx | | |
| GS-Primary-(263)-Block 1 | 0.00xxx | 0.xx | 0.xx |
| Block 2 | 0.00xxx | | |
| GS-Subtrans.-(265)-Block 1 | 0.00xxx | 0.xx | 0.xx |
| Block 2 | 0.00xxx | | |
| GS-Transmission-(267)-Block 1 | 0.00xxx | 0.xx | 0.xx |
| Block 2 | 0.00xxx | | |
| LPS - Secondary (302) | 0.00xxx | 0.xx | 0.xx |
| LPS - Primary (306) | 0.00xxx | 0.xx | 0.xx |
| LGS-TOD Secondary (337) | On Peak 0.000xx | | |
| | Off Peak 0.000xx | | |
| LGS-TOD-Primary (227) | On Peak 0.000xx | | |
| | Off Peak 0.000xx | | |
| LPS – Subtrans (308 & 309) | 0.000xx | 0.xx | 0.xx |
| LPS - Transmission (310) | 0.000xx | 0.xx | 0.xx |
| OL (093 to 143) | 0.00xxx | | |

Rates will remain in effect until modified by the Commission

Issued:

Pursuant to Final Order

Dated:

Case PUR-2025-00116

Effective:

APPALACHIAN POWER COMPANY

Appendix D
Sheet No.-NBP-XXD

VA. S.C.C. TARIFF NO. 28

RIDER O.A.D. S.A.C.
(Open Access Distribution Service - Securitized Asset Cost Rider)

This S.A.C. rider is subject to adjustment at least annually to ensure timely payment of principal, interest, and financing costs of securitized asset cost bonds from the effective date of the Securitized Asset Cost Rider until the securitized asset cost bonds have been paid in full or legally discharged and the financing costs have been fully recovered. As approved by the Commission, a special purpose entity (“SPE”), wholly owned by the Company, has been created and is the owner of the deferred fuel cost bonds which includes all rights to impose, bill, charge, collect, and receive relevant Securitized Asset Cost Charge and obtain periodic adjustment to such charges. The Company, as servicer, shall act as SPE’s collection agent for the relevant Securitized Asset Cost Charge.

Issued:**Pursuant to Final Order****Dated:****Case PUR-2025-00116****Effective:**

APPALACHIAN POWER COMPANY

Appendix D
Sheet No.-NBP-XXD

VA. S.C.C. TARIFF NO. 28

RIDER O.A.D. S.A.C.
(Open Access Distribution Service - Securitized Asset Cost Rider)**AVAILABILITY OF SERVICE**

Effective with service rendered on or after Month Day, YEAR, the rates in Securitized Asset Cost Rider will be applied to all customer bills, rendered under the applicable Standard, O.A.D. and F.O.A.D. Schedules or Special Contracts. The S.A.C. Rider shall be calculated by multiplying the kWh's of energy and kW's of demand by the rates below.

□

| Schedule | Energy Rate per kWh | | Demand Rate per kW |
|-------------------------------------|---------------------|-----------|--------------------|
| SGS - (231F,233F,234F,213F,281F) | \$0.000xx | | |
| GS-Secondary (261F) | Block 1 | \$0.000xx | |
| | Block 2 | \$0.000xx | |
| GS-Primary(263F) | Block 1 | \$0.000xx | |
| | Block 2 | \$0.000xx | |
| GS-Subtransmission (265F) | Block 1 | \$0.000xx | |
| | Block 2 | \$0.000xx | |
| GS-Transmission (267F) | Block 1 | \$0.000xx | |
| | Block 2 | \$0.000xx | |
| LPS - Secondary (302F) | | | \$0.0x |
| LPS - Primary (306F) | | | \$0.0x |
| LPS - Subtransmission (308F) (309F) | | | \$0.0x |
| LPS - Transmission (310F) | | | \$0.0x |

Rates will remain in effect until modified by the Commission

This S.A.C. rider is subject to adjustment at least annually to ensure timely payment of principal, interest, and financing costs of securitized asset cost bonds from the effective date of the Securitized Asset Cost Rider until the securitized asset cost bonds have been paid in full or legally discharged and the financing costs have been fully recovered. As approved by the Commission, a special purpose entity ("SPE"), wholly owned by the Company, has been created and is the owner of the deferred fuel cost bonds which includes all rights to impose, bill, charge, collect, and receive relevant Securitized Asset Cost Charge and obtain periodic adjustment to such charges. The Company, as servicer, shall act as SPE's collection agent for the relevant Securitized Asset Cost Charge.

Issued:**Effective:****Pursuant to Final Order****Dated:****Case PUR-2025-00116**

APPALACHIAN POWER COMPANY

Appendix D
Sheet No.-NBP-XXD

VA. S.C.C. TARIFF NO. 28

RIDER O.A.D. S.A.C.
(Open Access Distribution Service - Securitized Asset Cost Rider)**AVAILABILITY OF SERVICE**

Effective with service rendered on or after Month Day, YEAR, the rates in Securitized Asset Cost Rider will be applied to all customer bills, rendered under the applicable Standard, O.A.D. and F.O.A.D. Schedules or Special Contracts. ☐

The S.A.C. Rider shall be calculated by multiplying the kWh's of energy and kW's of demand by the rates below: ☐

| Schedule | Energy Rate per kWh | | Demand Rate per kW |
|-------------------------------------|---------------------|-----------|--------------------|
| SGS - (231F,233F,234F,213F,281F) | \$0.000xx | | |
| GS-Secondary (261F) | Block 1 | \$0.000xx | |
| | Block 2 | \$0.000xx | |
| GS-Primary(263F) | Block 1 | \$0.000xx | |
| | Block 2 | \$0.000xx | |
| GS-Subtransmission (265F) | Block 1 | \$0.000xx | |
| | Block 2 | \$0.000xx | |
| GS-Transmission (267F) | Block 1 | \$0.000xx | |
| | Block 2 | \$0.000xx | |
| LPS - Secondary (302F) | | | \$0.0x |
| LPS - Primary (306F) | | | \$0.0x |
| LPS - Subtransmission (308F) (309F) | | | \$0.0x |
| LPS - Transmission (310F) | | | \$0.0x |

This S.A.C. rider is subject to adjustment at least annually to ensure timely payment of principal, interest, and financing costs of securitized asset cost bonds from the effective date of the Securitized Asset Cost Rider until the securitized asset cost bonds have been paid in full or legally discharged and the financing costs have been fully recovered. As approved by the Commission, a special purpose entity ("SPE"), wholly owned by the Company, has been created and is the owner of the deferred fuel cost bonds which includes all rights to impose, bill, charge, collect, and receive relevant Securitized Asset Cost Charge and obtain periodic adjustment to such charges. The Company, as servicer, shall act as SPE's collection agent for the relevant Securitized Asset Cost Charge.

Issued:**Pursuant to Final Order****Dated:****Case PUR-2025-00116****Effective:**

APCo Exhibit No. _____

Witness: WKC

**DIRECT TESTIMONY OF
WILLIAM K. CASTLE
FOR APPALACHIAN POWER COMPANY
IN VIRGINIA S.C.C. CASE NO. PUR-2025-00116**

SUMMARY OF DIRECT TESTIMONY OF WILLIAM K. CASTLE

In my testimony, I

- Support the Company's request that the Commission issue a financing order for the securitization of approximately \$1.38 billion of the Company's assets consisting of \$1.22 billion associated with the Company's Virginia jurisdictional share of the Amos and Mountaineer coal facilities and \$141 million in storm recovery costs, and approximately \$11.2 million in upfront financing costs;
- Propose a mechanism to reduce base rates in the amount equal to the securitized Amos and Mountaineer plant balances currently in base rates;
- Explain that certain environmental costs included in the coal plant balances and currently collected in the E-RAC will result in a temporary overcollection of costs, subject to true-up, when the Company files its next E-RAC;
- Demonstrate that the securitization of storm recovery costs will significantly mitigate an abrupt and significant increase in rates;
- Propose a formula-based true-up mechanism for making mandatory annual, semi-annual, and interim adjustments to the securitized asset cost charges;
- Propose a method of tracing funds collected as securitized asset cost charges; and
- Support the Company's request for an exemption from the requirements of Va. Code § 56-77 A for affiliate contracts granted per Va. Code § 56-77 B.

**DIRECT TESTIMONY OF
WILLIAM K. CASTLE
FOR APPALACHIAN POWER COMPANY
IN VIRGINIA S.C.C. CASE NO. PUR-2025-00116**

1 **Q. PLEASE STATE YOUR NAME, BUSINESS ADDRESS, AND POSITION.**

2 A. My name is William K. Castle. I am the Director of Regulatory Services-VA/TN for
3 APCo, and my business address is 1051 East Cary St., Suite 1100, Richmond, Va. 23219.

4 **Q. PLEASE SUMMARIZE YOUR EDUCATIONAL BACKGROUND AND**
5 **BUSINESS EXPERIENCE.**

6 A. I earned a Bachelor of Science degree in Mechanical Engineering from Tulane University
7 in 1988, and a Masters of Business Administration degree from the University of Texas –
8 Austin in 1998. I hold the Chartered Financial Analyst (CFA) designation. I served in
9 the U.S. Navy from 1988-1996. I have worked in the utility industry since 1998,
10 beginning with the Columbia Energy Group, Herndon, Virginia, where I held positions in
11 financial planning and corporate finance. Subsequent to the acquisition of Columbia
12 Energy Group by Merrillville, Indiana-based NiSource in 2000, I performed financial
13 planning and analysis functions. In 2004 I was employed by AEPSC in the Resource
14 Planning group. In 2014, I accepted my current position.

15 **Q. HAVE YOU PREVIOUSLY SUBMITTED TESTIMONY AS A WITNESS**
16 **BEFORE ANY REGULATORY COMMISSION?**

17 A. Yes. I have presented testimony on behalf of APCo before the Commission in several
18 proceedings, most recently in Cases No. PUR-2024-00024 and PUR-2024-00161. I have
19 also presented testimony for AEP Affiliates Kingsport Power, Indiana Michigan Power,
20 Public Service Company of Oklahoma, AEP Ohio, and Southwestern Electric Power

1 Company. I have testified in the states of Ohio, Oklahoma, Indiana, West Virginia,
2 Arkansas, Tennessee, and Virginia.

3 **Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?**

4 A. The purpose of my testimony is to:

- 5 • Provide an overview of the securitization legislation that became effective on July 1,
6 2025 (Code of Virginia § 56.249.8) (the 2025 securitization law);
- 7 • Explain and quantify the eligible costs the Company proposes to securitize pursuant
8 to the 2025 securitization law (securitized asset costs), subject to Commission
9 approval in a final financing order;
- 10 • Provide estimates of certain financing costs relating to the issuance of and on-going
11 support for the securitized asset cost (SAC) bonds;
- 12 • Demonstrate that the proposed securitization will result in substantial benefits
13 including the avoidance of significant increases in rates;
- 14 • Describe the changes that will be required to reflect the securitization in the
15 Company's rates after the proceeds from the SAC bonds are received;
- 16 • Address the timing and structure of the proposed SAC bond issuance;
- 17 • Discuss how rate changes associated with the standard true-up mechanism and the
18 non-standard true-up mechanism will be treated;
- 19 • Describe the issuance advice letter procedure;
- 20 • Define the securitization rate classes (SAC Rate Classes) and securitization revenue
21 groups (SAC Revenue Groups) to be used in establishing the SAC charges;
- 22 • Calculate the Company's projected preliminary initial SAC charges; and
- 23 • Explain how the application for a financing order satisfies the requirements of the
24 2025 securitization law.

25 **Q. ARE YOU SPONSORING ANY EXHIBITS?**

26 A. Yes. I am sponsoring the following exhibits:

- 27 • APCo Exhibit No. ____ (WKC) Attachment 1 – Estimated Up-Front and Ongoing
28 Financing Costs
- 29 • APCo Exhibit No. ____ (WKC) Attachment 2 – Analysis Comparing Securitization
30 with Traditional Regulatory Recovery Methods
- 31 • APCo Exhibit No. ____ (WKC) Attachment 3 – SAC Rate Class Allocations

- APCo Exhibit No. ____ (WKC) Attachment 4 – Proposed Securitized Asset Cost Charges Tariff Sheet
- APCo Exhibit No. ____ (WKC) Attachment 5 – Proposed Securitization Base Rate Reduction Rider Tariff Sheet

Q. PLEASE SUMMARIZE THE COMPANY’S REQUEST IN THIS PROCEEDING.

A. Pursuant to the 2025 securitization law, to provide rate relief to customers, and to mitigate what would otherwise be a significant increase in rates, the Company requests that the Commission issue a financing order authorizing it to securitize costs and issue SAC bonds for eligible costs in the aggregate amount of approximately \$1.38 billion, summarized in Figure 1 below. The eligible costs are comprised of (1) Virginia jurisdictional distribution-related storm restoration costs incurred between January 1, 2024 and March 31, 2025; (2) the Virginia jurisdictional share of the undepreciated plant balances of the Amos and Mountaineer power plants as of December 31, 2023; and (3) upfront financing costs necessary for the issuance of the SAC bonds.

Figure 1

| APCo Virginia Jurisdictional Share to be Securitized (in Millions) | |
|---|-----------------|
| Undepreciated Amos and Mountaineer Plant Balances as of December 31, 2023 | \$ 1,224 |
| Deferred Storm Expense - January 2024 through March 2025 | 141 |
| Upfront Financing Costs | 11 |
| | <u>\$ 1,376</u> |

Q. HOW IS SECURITIZATION BENEFICIAL FOR CUSTOMERS?

A. In short, the ability to finance certain utility assets with highly rated debt and collect those financing costs, including principal, interest, and all associated servicing costs is less expensive than recovering those costs at the Company’s weighted average cost of capital, or in the case of major storm recovery, recovering those costs over an extended

1 period of time. As I will demonstrate, securitizing the coal plant balances over a period
2 slightly exceeding the remaining depreciable life recovers the same amount of rate base
3 (or “principal,” once securitized) at a lower annual cost to customers. In the case of
4 storm cost recovery, the benefit is primarily from extending the recovery period from
5 what would be a typical recovery period one might expect through the base rate process.
6 Securitization of these costs will save residential customers approximately \$11.44 a
7 month when compared to typical rate recovery during the first full year.

8 **Q. WHO ARE THE OTHER WITNESSES TESTIFYING ON BEHALF OF THE**
9 **COMPANY IN THIS PROCEEDING?**

10 A. Witness Steven Moffitt, Managing Director and Co-Head of the Americas Structured
11 Finance Group within the Capital Solutions Group at Goldman Sachs & Co. (Goldman),
12 provides a description of the preliminary terms and the proposed structure of the
13 securitization transaction. He also discusses the key factors in structuring, marketing,
14 and pricing the SAC bonds to produce savings to customers and to mitigate rate impacts
15 on customers through reasonable SAC charges, consistent with the financing order and
16 market conditions at the time of pricing. Witness Moffitt describes the collection and
17 disbursement of SAC charges received from customers for the payment of principal and
18 interest, ongoing financing costs, and other fees and expenses pursuant to the payment
19 waterfall for the securitization, and the roles of certain parties involved in the transaction.

20 In addition, witness Jason Baker, the Company’s Vice President of Distribution
21 Region Operations, describes the major cost drivers for the storm costs that the Company
22 is requesting authorization to recover through securitization in this case.

1 **Q. PLEASE QUANTIFY EACH ITEM THE COMPANY IS REQUESTING**
2 **APPROVAL TO SECURITIZE.**

3 A. The approximately \$1.38 billion proposed to be recovered through securitization is
4 comprised of the following amounts: \$1,223,643,464 of undepreciated generation utility
5 plant balances for the Company's 2,900 MW Amos generating plant and the Company's
6 1,300 MW Mountaineer generating plant; \$140,612,957 of distribution storm recovery
7 costs incurred after January 1, 2024; and approximately \$11.2 million in upfront
8 financing costs. Company witness Baker discusses the storms and restoration efforts that
9 comprise the \$140.6 million. The Company proposes to finance the entire amount.

10 **Q. WHAT ARE THE ANNUAL REVENUE REQUIREMENTS ASSOCIATED WITH**
11 **THESE ASSETS?**

12 A. The coal plant balances result in current annual revenue requirements of \$176.4 million
13 in base rates, and an estimated \$23 million in the E-RAC. Storms, while not currently in
14 rates, would result in a \$41.8 million annual revenue requirement if recovered over four
15 years.

16 **Q. WHAT UPFRONT AND ONGOING FINANCING COSTS DOES THE**
17 **COMPANY ESTIMATE THEY WILL INCUR IN CONNECTION WITH THE**
18 **ISSUANCE AND SERVICING OF THE SAC BONDS?**

19 A. It is currently estimated that the Company will incur \$11.2 million of upfront financing
20 costs, which are summarized in Figure 1 above and itemized by category in APCo
21 Exhibit No. ____ (WKC) Attachment 1.

1 It is also currently estimated that the Company's annual ongoing financing costs
2 following issuance will be \$1.6 million. The estimated ongoing financing costs are also
3 itemized by category in APCo Exhibit No. ____ (WKC) Attachment 1.

4 The upfront and ongoing financing costs associated with the securitization are
5 necessary to cover the expenses incurred during the SAC bond issuance and include
6 Securities and Exchange Commission fees, legal and accounting fees, rating agency fees,
7 Commission and Company advisor fees, as well as printing fees. In addition, the
8 Company will incur ongoing auditing, accounting, and other administrative costs
9 throughout the term of the SAC bonds, including a return on the equity contribution made
10 to the special purpose entity created to issue the bonds, which are discussed further
11 below. These fees are estimated based on experience from other AEP operating
12 companies' prior securitized bond issuances. The Company will update these estimates
13 to the actual values, if known, prior to issuing the SAC bonds.

14 **Q. DO THE PROPOSED DECEMBER 31, 2023, AMOS AND MOUNTAINEER**
15 **SECURITIZATION BALANCES SHOWN ABOVE INCLUDE CERTAIN**
16 **ASSETS THAT ARE RECOVERED THROUGH CURRENT APCO VIRGINIA**
17 **RETAIL RIDERS?**

18 A. Yes. The December 31, 2023, securitization balances include approximately \$83.3
19 million of combined APCo Virginia retail jurisdictional Amos and Mountaineer Plant
20 Coal Combustion & Residual (CCR) and Effluent Limitation Guideline (ELG)
21 investments that are currently being recovered through APCo's Environmental Rate
22 Adjustment Clause (E-RAC). Since APCo's E-RAC under-/over-recovery calculation
23 and entry incorporates plant-in-service balances on a one-month lag, this balance of \$83.3

1 million that is proposed for securitization represents CCR and ELG assets that were
2 placed in service through November 30, 2023.

3 **Q. DOES THE COMPANY ANTICIPATE INCURRING COSTS OF RETIRING OR**
4 **REFUNDING DEBT OR EQUITY IN CONNECTION WITH THE USE OF**
5 **PROCEEDS FROM THE ISSUANCE OF THE SAC BONDS?**

6 A. The Company anticipates using the proceeds to retire and refund both debt and equity and
7 for other general corporate purposes. Some of the debt repaid at the time proceeds are
8 received may require a make-whole payment to lenders. At this time, the Company is
9 unable to estimate or quantify the amount of the make-whole payment that may be
10 required. If a make-whole payment is required, an estimate of the make-whole payment
11 amount will be included in the upfront financing costs and presented in the Issuance
12 Advice Letter when the SAC bonds are issued. Doing so is permissible under Va. Code
13 § 56.249.8.A.3.

14 **Q. WHAT ARE THE PROJECTED SAVINGS TO CUSTOMERS UNDER THE**
15 **COMPANY'S SECURITIZATION PROPOSAL?**

16 A. APCo Exhibit No. ____ (WKC) Attachment 2 compares the cost of traditional cost
17 recovery of the costs to be recovered through securitization versus the estimated cost of
18 issuing SAC bonds over the same period. My analysis utilizes the pre-tax weighed cost
19 of capital approved in the Company's most recent base case, Case No. PUR-2024-00024,
20 of 8.725% to estimate the cost of traditional recovery and assumes a 5.25% bond rate to
21 estimate the cost of securitization. The net present values (NPV) of the two cost recovery
22 options were determined using the Company's after-tax weighted average cost of capital
23 as the discount rate.

APCo Exhibit No. ____ (WKC) Attachment 2 also demonstrates that the issuance of the SAC bonds is estimated to produce NPV savings of approximately \$175.5 million when comparing traditional rate recovery of the coal plant balances and storms with the issuance of 20-year SAC bonds. Again, this amount is an estimate based on current market conditions and reasonable assumptions regarding tenor, coupon, and upfront and ongoing financing costs and may change between now and the date of the SAC bond issuance. If the SAC bonds' weighted average yield is 5.75% over a 20-year period, customers could still expect to achieve approximately \$131.5 million in NPV savings. Therefore, even in the event of a higher interest rate environment at the time of SAC bond issuance, securitization is still expected to produce significant customer savings.

Q. WHY IS THE COMPANY RECOMMENDING A 20-YEAR BOND?

A. The coal plants are currently being depreciated until 2040. Extending the securitization time period increases the value to customers, while not materially avoiding generational responsibility for cost recovery. For reference, a 15-year recovery of the SAC bonds reduces the NPV savings by approximately \$37 million from the 20-year case.

Q. DOES THE PROPOSED SECURITIZATION SIGNIFICANTLY MITIGATE ABRUPT AND SIGNIFICANT INCREASES IN CUSTOMER RATES?

A. Yes. Absent the ability to securitize, customers would be responsible for storm recovery costs in base rates. The Commission can determine the period over which storm costs are amortized and recovered from customers. Ordinarily, storm costs have been amortized over the period between base rate cases (which has varied between three, one, and two years given the move from triennials to biennials with cases in 2020, 2023, 2024, and 2026). However, given the magnitude of these storm costs, the Company assumes that

1 the Commission would approve a longer amortization period, spanning two biennial
2 reviews. Thus, the Company's use of a four-year period is appropriate for comparing the
3 rate impacts of traditional cost recovery versus recovery through securitization.
4 Recovering storm costs over four years would increase a 1,000 kWh residential
5 customer's bill by approximately \$4.78. In contrast, by securitizing the plant balances
6 and deferred storm costs, that same residential customer can expect their bills to decrease
7 by approximately \$6.66.

8 **Q. IF, IN THE COMPANY'S 2026 BIENNIAL REVIEW, THE COMPANY IS**
9 **DETERMINED TO HAVE EARNED IN EXCESS OF 100 BASIS POINTS**
10 **ABOVE ITS ALLOWED RETURN FOR THE TEST YEARS, HOW DOES THE**
11 **COMPANY PROPOSE TO TREAT STORM RECOVERY COSTS THAT HAVE**
12 **BEEN RECOVERED THROUGH SECURITIZATION?**

13 A. The Company is required pursuant to Va. Code § 56.585.8 to credit to customer bills any
14 earnings in excess of 100 basis points above its allowed return. Further, the Commission
15 shall authorize for deferred recovery storm costs up to the point those deferrals result in
16 the Company earning more than 100 basis points above its allowed return. If, in the
17 Company's 2026 Biennial Review the Company is found to have earned in excess of 100
18 basis points above its allowed return, the Company proposes that any amounts in excess
19 of 100 basis points be returned to customers with a Company credit in an equal amount to
20 be amortized over the subsequent biennial period. Such credit may not impact the
21 payment of the SAC bonds and the SAC charges or impair the value of the SAC property.

Q. PLEASE SUMMARIZE THE RATE CLASS ALLOCATION OF THE SECURITIZED COSTS

A. Figure 2 shows the summary level class allocations associated with both the plant balances and storm costs. The class allocations for the SAC cost charges will follow these allocations.

Figure 2

| SAC Allocation by Rate Class | | | | | |
|------------------------------|--|---------------------------|--|------------------------------------|----------------------------|
| SAC Rate Classes | % Share of Plant Balance - Production Demand | \$ Share of Plant Balance | % Share of Storm Deferral Balance Distribution | \$ Share of Storm Deferral Balance | \$ Total Share of Balances |
| Residential | 60.13% | 735,795,274 | 71.67% | 100,773,090 | 836,568,364 |
| Commercial | 21.28% | 260,425,723 | 21.43% | 30,126,928 | 290,552,651 |
| Industrial | 18.59% | 227,422,467 | 6.91% | 9,712,939 | 237,135,406 |
| Total | 100.00% | 1,223,643,464 | 100.00% | 140,612,957 | 1,364,256,421 |

The full class revenue allocations are shown in APCo Exhibit __ (WKC) Attachment 3.

Q. HOW DOES THE COMPANY PROPOSE TO IMPLEMENT THE CHANGE IN BASE RATES ASSOCIATED WITH THE ISSUANCE OF THE SAC BONDS?

A. There will be no change to the Company's base rates or implementation of the SAC charges until after the SAC bonds are issued and the proceeds received by the Company. To explain, once the Commission approves the Company's securitization filing by issuing a financing order, the Company will start the process of marketing the SAC bonds. Upon issuance of the SAC bonds and receipt of the proceeds, and based on the above-described eligible costs to be recovered through securitization, the Company will change the following:

- Base Rates, specifically generation base rates, will be reduced to reflect the reduction in rate base associated with removal of the undepreciated plant balances as of December 31, 2023. The Company can efficiently accomplish this through a percentage reduction rider, as was authorized and in effect when corporate tax rates were reduced between base rate cases in 2018 (Case No. PUR-2018-00054). The proposed Securitized Rate Reduction Rider is APCo Exhibit No. __ (WKC)

Attachment 4, and is applicable to the Company's Standard Service and F-O.A.D. customers. The percentage reduction for base generation rates is 41.35%.

Q. HOW SHOULD THE COMMISSION INCORPORATE THE RATE CHANGES INTO THE COMPANY'S NEXT BIENNIAL REVIEW?

A. It is likely that the SAC bonds will be issued either prior to, or during the pendency of the Company's 2026 Biennial review, but prior to new rates going into effect. The Company will include the results of the Commission's financing order in its 2026 base rate application, with base rates reflecting the reduction in rate base associated with the undepreciated plant balances authorized for securitization. Further, the Company will not seek recovery, in base rates, for storm recovery costs incurred between January 1, 2024 and March 31, 2025.

Q. HOW DOES THE COMPANY PROPOSE TO RECOVER CCR/ELG INVESTMENTS AT AMOS AND MOUNTAINEER GOING FORWARD?

A. The Company proposes to continue to recover, through the existing E-RAC rider, CCR and ELG investments at Amos and Mountaineer that were placed in service post November 30, 2023. Upon the securitization of the \$83.3 million of Amos and Mountaineer CCR and ELG investments described above, the Company proposes to include monthly Virginia retail offsetting credits of \$86 million to CCR/ELG electric plant in service and \$2.7 million to CCR/ELG accumulated depreciation (net balance of \$83.3 million) when determining monthly depreciation expense and return on rate base for monthly E-RAC over-/under-recovery calculations and entries.

1 **Q. HOW WILL THE COMPANY REDUCE RATES ASSOCIATED WITH CCR**
2 **AND ELG INVESTMENT AT AMOS AND MOUNTAINEER PUT IN SERVICE**
3 **PRIOR TO DECEMBER 31, 2023?**

4 A. The Company has before the Commission a petition to change its E-RAC rates (Case No.
5 PUR-2025-00001) that was filed May 16, 2025, that does not reflect the prospect of
6 securitization. Because an order in that case is not due until January 2026, with rates
7 effective in March of 2026, the Company can incorporate the directives included in the
8 Financing Order into its E-RAC rates at that time, which should coincide with or precede
9 the receipt of bond proceeds.

10 **Q. WHEN ARE THE SAC BONDS EXPECTED TO BE ISSUED?**

11 A. The Company expects to start marketing the SAC bonds as promptly as possible after the
12 following events occur: issuance of a final non-appealable financing order; completion of
13 the SEC registration statement review process; and completion of review by rating
14 agencies. Upon completion of these events, the Company expects to pursue an
15 aggressive schedule and efficient process to market, price, complete the issuance advice
16 process (described below) and issue the SAC bonds, subject to market conditions.

17 **Q. WHAT ENTITIES WILL ISSUE, ADMINISTER, AND SERVICE THE SAC**
18 **BONDS?**

19 A. The Company will form one or more new special, limited purpose entities (each, a
20 Bondco) as a Delaware limited liability company that will be separately organized,
21 bankruptcy remote, and wholly-owned by APCo to issue the SAC bonds and hold the
22 relevant portion of the SAC property for the Company. APCo will sell their portion of
23 the SAC property to the Bondco(s) in a “true sale transaction” in exchange for the net

1 proceeds from the issuance of the SAC bonds. This structure and the Bondco(s)
2 formation are discussed further in Company witness Moffitt's testimony. APCo will act
3 as servicer for the SAC bonds and may rely on its affiliate, AEPSC, to undertake a
4 portion of the responsibilities as servicer.

5 **Q. WILL APCO MAKE AN EQUITY CONTRIBUTION TO THE BONDCO?**

6 A. Yes. APCo will make a capital contribution to the Bondco(s) in the amount of 0.50% of
7 the total original securitized balance. As noted above, the Company proposes to recover
8 a return on those capital contributions at the pre-tax weighted average cost of capital
9 approved in its 2024 Biennial.

10 The Company's proposed 0.50% equity investment has been derived from
11 guidance from the Internal Revenue Service (IRS) through its Revenue Procedure 2005-
12 62 (the IRS Revenue Procedure). The AEPSC Tax group has advised that the fact that
13 the Company receives a return on their capital contribution contributes to the "equity
14 investment" characterization of these funds, which is necessary to ensure that the
15 securitization transaction receives beneficial tax treatment by the IRS that will allow the
16 receipt of proceeds from the Company's sale of the SAC property to be disregarded for
17 tax purposes. The IRS Revenue Procedure sets forth the way an investor-owned utility
18 may treat, for federal income tax purposes, the issuance of a financing order by a state
19 regulatory agency and the securitization of the rights created by the financing order.
20 Having an equity investment in the Bondco(s) of at least 0.50% is within the safe harbor
21 provided in the IRS Revenue Procedure and helps to ensure that the Company will not
22 recognize in its taxable income the cash proceeds received from the sale of securitized

property or the issuance of the securitized bonds. Rather, the securitized bonds will be considered borrowings of the Company for federal income tax purposes.

Q. PLEASE SUMMARIZE THE EXPECTED JOURNAL ENTRIES TO RECORD THE BOND PROCEEDS.

A. Figure 3 below summarizes expected journal entries to record the bond proceeds in the Company's books. Proceeds will be recorded as an increase in Cash [Account 131], with corresponding reductions in Deferred Storm Cost Regulatory Assets [Account 182.3] and in net plant related to Undepreciated Plant Balances as well as CCR and ELG Investments [Accounts 101 and 108]. Reductions in net plant will be recorded by FERC Plant Account, through newly established contra accounts within Plant in Service [Account 101] and Accumulated Depreciation [Account 108], to preserve the Company's ability to facilitate multi-jurisdictional ratemaking, and appropriately exclude Virginia jurisdictional amounts recovered through securitization bonds from future Virginia jurisdictional revenue requirements.

Figure 3

| (in Millions) | | APCo | |
|---------------|---|----------|----------|
| FERC Account | Account Description | Debit | Credit |
| 1310000 | Cash | \$ 1,364 | |
| 101 (New) | Plant in Service - VA Securitization | | \$ 1,309 |
| 108 (New) | Accumulated Provision for Depreciation of Plant - VA Securitization | \$ 86 | |
| 1823078 | Deferred Storm Expense - VA | | \$ 141 |
| | | \$ 1,450 | \$ 1,450 |

Q. WILL THERE BE ANY CHANGES IN HOW THE COMPANY RECORDS ASSET ADDITIONS, RETIREMENTS, ASSET RETIREMENT OBLIGATIONS,

**DEPRECIATION EXPENSE, AND ACCRETION EXPENSE POST-
SECURITIZATION?**

A. Normal plant accounting will remain unchanged. To facilitate multi-jurisdictional ratemaking and appropriately exclude Virginia jurisdictional amounts recovered through securitization bonds from future Virginia jurisdictional base rate revenue requirements, the Company will depreciate the balances in the new contra account within Plant in Service [Account 101] using Commission-approved depreciation rates for each applicable FERC Plant Account to new contra accounts within Depreciation Expense [Account 403] and Accumulated Depreciation [Account 108] (Securitization Contra Plant and Depreciation Accounts).

**Q. HOW WILL THE SECURITIZATION CONTRA PLANT AND DEPRECIATION
ACCOUNTS BE TREATED IN FUTURE RATEMAKING PROCEEDINGS?**

A. The Securitization Contra Plant and Depreciation Accounts [Accounts 101, 108, and 403] will be directly assigned to the Virginia jurisdiction in future ratemaking proceedings, to exclude the securitized cost of Undepreciated Plant Balances and CCR and ELG Investments as of December 31, 2023, from future Virginia jurisdictional retail ratemaking. All other plant accounts and related depreciation and accretion expense will follow the historical allocation methodologies approved by the Commission.

**Q. HOW WILL THE COMPANY SEPARATELY TRACK THE SECURITIZED
PLANT AND DEFERRED STORM ASSETS?**

A. The Company will create a separate business unit and legal entity to account for the combined Virginia retail securitized asset and associated debt. This separate business unit and legal entity will track income statement and balance sheet activity related to

1 the securitized assets in this case and will be excluded from the development of future
2 APCo Virginia retail generation and distribution base rates.

3 **Q. HOW WILL THE COMPANY SEPARATELY TRACK FUNDS COLLECTED AS**
4 **SAC CHARGES?**

5 A. The Company will track funds collected from customers through the separate
6 securitization rider that I propose in this filing, the Securitized Asset Cost Rider.
7 Customers will see the SAC charges as a separate line item on their bill.

8 **Q. PLEASE DISCUSS THE TRUE-UP PROCESS FOR THE SAC RIDER.**

9 A. The true-up process is a formula-based adjustment mechanism, pursuant to Va. Code
10 § 56.249.8 to correct for any over- or under-collections and ensure timely and complete
11 payment of interest and scheduled principal on the SAC bonds and associated other
12 financing costs. True-up filings will be based, regardless of the reason, on the difference
13 between the periodic payment amounts necessary to timely pay all scheduled payments of
14 interest and principal and all other ongoing financing costs, including to replenish any
15 draws upon the capital subaccount (Periodic Payment Requirement), as described in
16 Company witness Moffitt's testimony, and the amount of SAC charges remitted to the
17 relevant indenture trustees of cause, from the preceding period, at least annually, by
18 subtracting the Periodic Payment Requirement for the previous period from that period's
19 revenue collected, taking into account actual collections and collections projected to be
20 received prior. The proposed financing order accompanying the Company's application
21 contains the terms and operation of the true-up adjustment mechanism. The true-ups are
22 calculated as follows:

23 (a) calculate under-collections or over-collections, regardless of the upcoming true-up
24 adjustment effective date;

- 1 (b) calculate the periodic billing requirement (PBR) for the next twelve-month period
2 following the proposed true-up adjustment effective date;
- 3 (c) sum the amounts in steps (a) and (b) to determine an adjusted PBR for the next
4 twelve months;
- 5 (d) multiply the sum calculated in step (c) by the revenue allocation percentages then
6 assigned to each SAC Rate Class, as the same may be modified as described below,
7 to determine the PBR for each SAC Rate Class; and
- 8 (e) divide the amount assigned to each SAC Rate Class in step (d) by the forecasted
9 energy (kWh) billing units or demand (kW) which may include adjustments for
10 seasonality and customer collection experience, as applicable, to determine the SAC
11 charge for each SAC Rate Class for the upcoming twelve-month period.

12 Additionally, the first PBR established through the issuance advice letter may be
13 calculated based upon a collection period greater or less than twelve months, and the
14 PBRs calculated in the event any SAC bonds remain outstanding following the scheduled
15 final payment date may be calculated based upon a collection period of less than twelve
16 months. This is to accommodate the natural lag in collections and the start of the first
17 periodic interest and principal payments.

18 **Q. PLEASE DESCRIBE THE PROPOSED STANDARD TRUE-UPS.**

19 A. The Company proposes to use three forms of standard true-ups: (i) mandatory annual
20 true-ups to be implemented to correct for any over- or under-collections; (ii) mandatory
21 semi-annual true-ups (and quarterly beginning twelve months prior to the last scheduled
22 final payment date of the SAC bonds) if the servicer forecasts that SAC charge
23 collections will be insufficient to make all scheduled payments of principal, interest, and
24 other ongoing financing costs, including to replenish any draws upon the relevant capital
25 subaccount; and (iii) additional true-ups, at any time, if the servicer determines at any
26 time that a true-up is necessary to ensure the timely payment of principal, interest and
27 ongoing financing costs. Consistent with Va. Code § 56.249.8, a standard true-up would
28 become effective 30 days after a true-up is filed with the Commission.

1 **Q. PLEASE DESCRIBE THE PROPOSED NON-STANDARD TRUE-UPS.**

2 A. The Company proposes that the servicer use non-standard true-ups in cases of a
3 significant change in historical conditions of operations wherein forecasted load of any
4 major customer classes (residential, commercial, industrial) experiences or is projected to
5 experience an increase or decrease of 10% or more as calculated by comparing the
6 difference between the revised forecasted load and the original projected load or in the
7 most recent application of the True-up Mechanism.

8 In the event a non-standard true-up is made, the then-current SAC charges shall
9 remain in effect until the Commission approves the new SAC charges associated with the
10 non-standard true-up. This is to ensure that the revenue needed to meet the revenue
11 requirement will continue to be collected until a new SAC charge is put into effect.

12 **Q. IS THERE ADDITIONAL INFORMATION THE COMPANY IS PROPOSING**
13 **TO SUBMIT ANNUALLY?**

14 A. Yes. The Company has requested an exemption from the requirements of Va. Code
15 § 56-77 A for the affiliate contracts referred to as the "Transaction Documents." These
16 agreements include the Purchase and Sale Agreement, Administration Agreement,
17 Limited Liability Company Agreement (LLC Agreement), Indenture, and Servicing
18 Agreement, and Intercreditor Agreement. These agreements will be filed 30 days after
19 the application. As a condition of the exemption granted in the financing order as
20 proposed by the Company, APCo will include the following information in its Annual
21 Report of Affiliate Transactions submitted each year to the Director of the Division of
22 Utility Accounting and Finance, in Excel format with formulas intact, for the duration of
23 APCo's roles under the Servicing and Administration Agreements:

- 1 • A schedule of the Securitized Asset Cost Charges collected by APCo and remitted
2 to the SPE, by month and by dollar amount;
- 3 • A schedule that quantifies the fees paid by the SPE to APCo, by type of fee, by
4 month, by FERC account where the proceeds from each fee is recorded on APCo's
5 books, and by dollar amount;
- 6 • A schedule that quantifies APCo's internal and external costs to carry out its
7 responsibilities under the Servicing and Administration Agreements, by
8 agreement, by type of cost, by month, by FERC account where each cost is
9 recorded on APCo's books, and by dollar amount; and
- 10 • A schedule that quantifies any other charges or fees to/from APCo from/to SPE,
11 by type of charge, by month, by FERC account where each cost is recorded on
12 APCo's books, and by dollar amount.

13 **Q. WILL THE ALLOCATION PERCENTAGES FOR THE SAC RATE CLASSES**
14 **REMAIN THE SAME OVER THE LIFE OF THE SAC BONDS?**

15 A. The SAC Rate Class allocation percentages will remain the same over the life of the SAC
16 bonds, provided there is not a significant change in the projected load within a rate class
17 so as to necessitate a non-standard true-up. In the event of a non-standard true-up, the
18 servicer will initiate a proceeding to determine new allocation factors for all or many of
19 the rate classes. Additionally, in the event that any SAC charges cannot be allocated to a
20 Rate Class (e.g., no customers remain in such Rate Class), such charges shall be re-
21 allocated to the remaining Rate Classes using the same ratable allocation to the Rate
22 Classes, excluding the class to which the allocation is no longer feasible.

23 **Q. WHAT IS THE PURPOSE OF AN ISSUANCE ADVICE LETTER?**

24 A. Because the Company will not know the final terms of the SAC bonds until after the
25 Financing Order is issued, the Company proposes the use of an Issuance Advice Letter to
26 inform the Commission of those terms prior to their issuance.

1 **Q. PLEASE DESCRIBE IN GREATER DETAIL THE INFORMATION TO BE**
2 **CONTAINED IN THE ISSUANCE ADVICE LETTER.**

3 A. Though not required pursuant to Va. Code §56.249.8, an issuance advice letter contains a
4 description of the final structure and terms of the SAC bonds, and the proposed financing
5 order submitted by the Company, and will include the following items:

- 6 • the schedule of principal amortization;
- 7 • the frequency of principal or interest payments;
- 8 • the interest rates on the SAC bonds;
- 9 • the manner of sale of the SAC bonds;
- 10 • the structure necessary to obtain the highest possible credit ratings;
- 11 • an updated estimate of the upfront and ongoing financing costs;
- 12 • a calculation of the initial SAC charges based upon the information contained in the
13 issuance advice letter; and
- 14 • a calculation of anticipated savings to customers, calculated on both a nominal and
15 NPV basis, as compared to the use of traditional financing methods (for informational
16 purposes only).

17 The information in the issuance advice letter will reflect discussions with the rating
18 agencies and the most recent input of the underwriters. The proposed form of the
19 issuance advice letter is attached as Appendix B to the proposed form of financing order.

20 **Q. DOES THE COMPANY PROPOSE ANY ADDITIONAL PROCEDURES TO**
21 **SUPPLEMENT THE ISSUANCE ADVICE LETTER PROCEDURE?**

22 A. Yes. The proposed issuance advice letter procedure includes both the submission of a
23 draft issuance advice letter for review prior to marketing the SAC bonds, as well as the
24 submission of the final issuance advice letter following pricing.

25 Pre-Pricing Submissions: The Company will submit a draft issuance advice letter to the
26 Commission for review no later than two weeks prior to the expected date of

1 commencement of marketing of the SAC bonds. With the approval of the Commission,
2 the actual date of the commencement of marketing may be a date earlier than the
3 expected date.

4 Final Issuance Advice Letter Submission: Not later than the end of the first business day
5 after the pricing of the SAC bonds and prior to issuance of the SAC bonds, the Company
6 will provide to the Commission a fully executed final issuance advice letter. The final
7 issuance advice letter will contain the final pricing terms as well as the updated up-front
8 and ongoing financing costs.

9 Authority to Proceed: The initial SAC charge and the final terms of the SAC bonds
10 contained in the final issuance advice letter, will be final, irrevocable and uncontestable,
11 and shall proceed without any further actions of the Commission unless prior to noon on
12 the third business day after the Commission receives the final issuance advice letter
13 containing the pricing of the SAC bonds, the Commission issues an order finding that the
14 proposed issuance does not comply with the standards of the financing order.

15 **Q. HOW DOES THE COMPANY PROPOSE TO ASSIGN RESPONSIBILITY OF**
16 **THE SAC REVENUES TO THE RATE CLASSES?**

17 A. Consistent with Va. Code § 56.249.8.B.2, the Company proposes to allocate securitized
18 asset costs to customers using the approved allocations for generation and storm cost
19 recovery in the Company's last base rate case. Customers who purchase electric energy
20 from a licensed supplier will pay non-bypassable SAC charges associated with storm
21 recovery only.

1 **Q. PLEASE DESCRIBE THE PROPOSED RATE DESIGN.**

2 A. The proposed SAC charges will follow the approved methodology for generation rate
3 base recovery and storm recovery approved in the Company's 2024 Biennial Review.

4 **Q. HOW WILL THE SAC CHARGES BE APPLIED?**

5 A. The Company proposes to implement the SAC charges for each SAC Rate Class effective
6 with the bills issued the day after the receipt of the SAC bond proceeds on a prorated
7 basis. These rates, as periodically adjusted, will continue in effect until all interest and
8 scheduled principal on the SAC bonds and financing costs are fully paid.

9 **Q. HOW DOES THE COMPANY PROPOSE TO ACCOUNT FOR CUSTOMERS
10 THAT ARE ELIGIBLE TO OPT-OUT OF SECURITIZATION AND THAT
11 AVAIL THEMSELVES OF THIS OPTION?**

12 A. Any eligible customer that wishes to opt-out must do so within 30 days of the Company
13 filing this petition as required by the provisions of Chapter 597 of the 2025 Virginia
14 Acts of Assembly. They must also pay the Company, up-front, their pro-rata share of the
15 amount approved in the financing order. This prorated share will be calculated using the
16 class allocations approved in the 2024 Biennial Review and the opt-out customer's
17 contribution to the billing determinants in that case. This would in turn reduce the
18 amount of costs ultimately recovered through securitization and those customers would
19 not be subject to the SAC Rider. Thirty days after the filing of the Company's petition,
20 customers may not opt out of the SAC charge.

1 **Q. IS THE PROPOSED SECURITIZATION EXPECTED TO RESULT IN**
2 **REASONABLE SAC CHARGES?**

3 A. Yes, as I have described above and demonstrate through my exhibits. The proposed
4 securitization financing has been carefully designed and structured to ensure that the SAC
5 bonds receive the highest bond rating reasonably possible, which is consistent with the
6 objective of producing savings to customers and to mitigate rate impacts on customers as
7 compared to traditional financing mechanisms or traditional cost-recovery methods
8 available to the Company.

9 **Q. DOES THIS CONCLUDE YOUR DIRECT TESTIMONY?**

10 A. Yes, it does.

| Description of Cost items | Upfront Costs |
|---|----------------------|
| Based on averages of recent deals for fixed costs | |
| Legal Fees (Companies', Bondcos', & Underwriters' Counsel) | \$ 2,500,000 |
| Fee for Commission Financial Advisor & Companies' Structuring Advisor | \$ 750,000 |
| Printing/Edgarizing Expenses | \$ 200,000 |
| Miscellaneous Administrative Costs | \$ 64,365 |
| Rating Agency Fees | \$ 1,681,625 |
| Accountant's Fees | \$ 150,000 |
| Servicer Set-up Costs | \$ 125,000 |
| Trustee's/Trustee's Counsel Fees and Expenses | \$ 60,000 |
| Underwriting Fee | \$ 5,502,000 |
| Original Issue Discount | \$ - |
| SEC Fees | \$ 210,589 |
| Total Fixed Qualified Costs | \$ 11,243,579 |
| Costs as % of Bonds | 0.8% |
| Ongoing Costs | |
| Ongoing Servicer Fee (AEP as Servicer) | \$ 687,750 |
| Administration Fee | \$ 100,000 |
| Accountants' Fees | \$ 75,000 |
| Legal Fees/Expenses for Company's/Issuer's Counsel | \$ 50,000 |
| Trustee's/Trustee's Counsel Fees and Expenses | \$ 10,000 |
| Independent Managers' Fee | \$ 2,750 |
| Rating Agency Fees | \$ 75,000 |
| Return on Capital Account | \$ 604,993 |
| Miscellaneous | \$ 25,000 |
| Total Annual Ongoing Costs | \$ 1,630,493 |

APCo Virginia
Securitization Versus Traditional Cost Recovery

| Term in Years | Estimated Interest Rate | Estimated Balance to be Securitized | Debt Service and Ongoing Costs | Securitization NPV | NPV Traditional Recovery | Savings/(Cost) |
|---------------|-------------------------|-------------------------------------|--------------------------------|--------------------|--------------------------|----------------|
| 15 | 5.25% | \$ 1,375,500,000 | \$ 13,389,400 | \$ 1,103,007,095 | \$ 1,241,621,782 | \$ 138,614,688 |
| 20 | 5.25% | \$ 1,375,500,000 | \$ 15,402,818 | \$ 1,066,112,350 | \$ 1,241,621,782 | \$ 175,509,432 |
| 15 | 5.50% | \$ 1,375,500,000 | \$ 13,394,162 | \$ 1,120,906,841 | \$ 1,241,621,782 | \$ 120,714,941 |
| 20 | 5.50% | \$ 1,375,500,000 | \$ 15,408,296 | \$ 1,088,009,494 | \$ 1,241,621,782 | \$ 153,612,288 |
| 15 | 5.75% | \$ 1,375,500,000 | \$ 13,394,162 | \$ 1,138,970,452 | \$ 1,241,621,782 | \$ 102,651,330 |
| 20 | 5.75% | \$ 1,375,500,000 | \$ 15,408,296 | \$ 1,110,145,299 | \$ 1,241,621,782 | \$ 131,476,484 |

(in millions)

| Term in Years | Estimated Interest Rate | Estimated Balance to be Securitized | Debt Service and Ongoing Costs | Securitization NPV | NPV Traditional Recovery | NPV Savings/Cost |
|---------------|-------------------------|-------------------------------------|--------------------------------|--------------------|--------------------------|------------------|
| 15 | 5.25% | \$ 1,375.5 | \$ 13.4 | \$ 1,103.0 | \$ 1,241.6 | \$ 138.6 |
| 20 | 5.25% | \$ 1,375.5 | \$ 15.4 | \$ 1,066.1 | \$ 1,241.6 | \$ 175.5 |
| 15 | 5.50% | \$ 1,375.5 | \$ 13.4 | \$ 1,120.9 | \$ 1,241.6 | \$ 120.7 |
| 20 | 5.50% | \$ 1,375.5 | \$ 15.4 | \$ 1,088.0 | \$ 1,241.6 | \$ 153.6 |
| 15 | 5.75% | \$ 1,375.5 | \$ 13.4 | \$ 1,139.0 | \$ 1,241.6 | \$ 102.7 |
| 20 | 5.75% | \$ 1,375.5 | \$ 15.4 | \$ 1,110.1 | \$ 1,241.6 | \$ 131.5 |

| SAC Allocation by Rate Class | | | | | |
|--|---|------------------------------|--|---------------------------------------|-------------------------------|
| SAC Rate Classes | % Share of Plant Balance - Production Demand | \$ Share of Plant Balance | % Share of Storm Deferral Balance - Distribution | \$ Share of Storm Deferral Balance | \$ Total Share of Balances |
| Residential (RS) | 60.13% | \$ 735,795,274 | 71.67% | \$ 100,773,090 | \$ 836,568,364 |
| Commercial - Secondary (SGS, SWS) | 4.94% | \$ 60,436,244 | 5.13% | \$ 7,217,185 | \$ 67,653,429 |
| Commercial - Secondary OAD (SGS, SWS) | 0.00% | \$ - | 0.00% | \$ 3,763 | \$ 3,763 |
| Commercial - Primary (SGS) | 0.02% | \$ 257,501 | 0.01% | \$ 20,136 | \$ 277,637 |
| Commercial - Primary OAD (SGS) | 0.00% | \$ - | 0.00% | \$ 121 | \$ 121 |
| Commercial - Secondary GS | 14.42% | \$ 176,425,622 | 14.92% | \$ 20,979,159 | \$ 197,404,781 |
| Commercial - Secondary GS OAD | 0.00% | \$ - | 0.02% | \$ 26,135 | \$ 26,135 |
| Commercial - Primary GS | 1.36% | \$ 16,635,160 | 0.92% | \$ 1,300,285 | \$ 17,935,445 |
| Commercial - Primary GS OAD | 0.00% | \$ - | 0.06% | \$ 90,579 | \$ 90,579 |
| Commercial - Subtransmission GS | 0.09% | \$ 1,087,401 | 0.00% | \$ - | \$ 1,087,401 |
| Commercial - Subtransmission GS OAD | 0.00% | \$ - | 0.00% | \$ - | \$ - |
| Commercial - Transmission GS | 0.01% | \$ 73,979 | 0.00% | \$ - | \$ 73,979 |
| Commercial - Transmission GS OAD | 0.00% | \$ - | 0.00% | \$ - | \$ - |
| Commercial - Lighting (OL) | 0.11% | \$ 1,393,291 | 0.00% | \$ - | \$ 1,393,291 |
| Commercial - Lighting OAD (OL) | 0.00% | \$ - | 0.00% | \$ 85 | \$ 85 |
| Commercial - GS TOD, LGS TOD Secondary | 0.34% | \$ 4,116,525 | 0.35% | \$ 489,479 | \$ 4,606,004 |
| Commercial - GS TOD, LGS TOD Primary | 0.00% | \$ - | 0.00% | \$ - | \$ - |
| Industrial - Secondary (LPS) | 0.87% | \$ 10,617,042 | 0.91% | \$ 1,272,713 | \$ 11,889,755 |
| Industrial - Secondary OAD (LPS) | 0.00% | \$ - | 0.00% | \$ - | \$ - |
| Industrial - Primary (LPS) | 8.28% | \$ 101,318,839 | 5.85% | \$ 8,226,099 | \$ 109,544,938 |
| Industrial - Primary OAD (LPS) | 0.00% | \$ - | 0.15% | \$ 214,127 | \$ 214,127 |
| Industrial - Subtransmission (LPS) | 7.34% | \$ 89,794,435 | 0.00% | \$ - | \$ 89,794,435 |
| Industrial - Subtransmission OAD (LPS) | 0.00% | \$ - | 0.00% | \$ - | \$ - |
| Industrial - Transmission (LPS) | 2.10% | \$ 25,692,151 | 0.00% | \$ - | \$ 25,692,151 |
| Industrial - Transmission OAD (LPS) | 0.00% | \$ - | 0.00% | \$ - | \$ - |
| Total | 100.00% | \$ 1,223,643,464 | 100.00% | \$ 140,612,957 | \$ 1,364,256,421 |

APPALACHIAN POWER COMPANY

Sheet No.-XX

VA. S.C.C. TARIFF NO. 28

**RIDER S.A.C.
 (Securitized Asset Cost Rider)**

AVAILABILITY OF SERVICE

Effective with service rendered on or after Month Day, YEAR, the rates in Securitized Asset Cost Rider will be applied to all customer bills, rendered under the applicable Standard and F.O.A.D. Schedules or Special Contracts. The S.A.C. Rider shall be calculated by multiplying the kWh's of energy and kW's of demand by the rates below:

| Appalachian Power Company | | | |
|--|----------|----------------|----------------|
| Summary of Securitization Rates | | | |
| Schedule | | Energy per kWh | Demand per kW* |
| | | Total in (\$) | Total in (\$) |
| Residential (011,012,013,014,015,019,020,051,054) | | \$ 0.01104 | \$ — |
| Residential – TOD or TOU (030,031,032,036) | On-Peak | \$ 0.01104 | \$ — |
| | Off-Peak | \$ 0.01104 | \$ — |
| SWS (222) | | \$ 0.00882 | \$ — |
| SGS - (231,233,234,213,281) | | \$ 0.00882 | \$ — |
| SGS Primary- (234) | | \$ 0.00837 | \$ — |
| SGS - LMTOD (225,226) | On-Peak | \$ 0.00882 | \$ — |
| | Off-Peak | \$ 0.00882 | \$ — |
| GS-Secondary (261) | Block 1 | \$ 0.00597 | \$ 0.92 |
| | Block 2 | \$ 0.00347 | |
| | Block 3 | \$ — | |
| GS-Primary (263) | Block 1 | \$ 0.00567 | \$ 0.89 |
| | Block 2 | \$ 0.00330 | |
| | Block 3 | \$ — | |
| GS-Subtransmission (265) | Block 1 | \$ 0.00467 | \$ 0.86 |
| | Block 2 | \$ 0.00290 | |
| | Block 3 | \$ — | |
| GS-Transmission (267) | Block 1 | \$ 0.00459 | \$ 0.85 |
| | Block 2 | \$ 0.00285 | |
| | Block 3 | \$ — | |
| GS - TOD or LGS TOD Secondary (229, 337) | On-Peak | \$ 0.00707 | \$ — |
| | Off-Peak | \$ 0.00707 | \$ — |
| GS - TOD or LGS TOD Primary (227, 339) | On-Peak | \$ 0.00671 | \$ — |
| | Off-Peak | \$ 0.00671 | \$ — |
| LPS - Secondary (302) | | \$ — | \$ 2.74 |
| LPS - Primary (306) | | \$ — | \$ 2.64 |
| LPS - Subtransmission (308) (309) | | \$ — | \$ 2.43 |
| LPS - Transmission (310) | | \$ — | \$ 2.39 |
| OL (093 + range) | | \$ — | \$ 0.13 |
| | | | |
| | | | |
| *\$ per Lamp for OL Tariffs | | | |

APPALACHIAN POWER COMPANY

Sheet No.-XX

VA. S.C.C. TARIFF NO. 28

**RIDER S.A.C.
(Securitized Asset Cost Rider)**

Rates will remain in effect until modified by the Commission

This S.A.C. rider is subject to adjustment at least annually to ensure timely payment of principal, interest, and financing costs of securitized asset cost bonds from the effective date of the Securitized Asset Cost Rider until the securitized asset cost bonds have been paid in full or legally discharged and the financing costs have been fully recovered. As approved by the Commission, a special purpose entity ("SPE"), wholly owned by the Company, has been created and is the owner of the deferred fuel cost bonds which includes all rights to impose, bill, charge, collect, and receive relevant Securitized Asset Cost Charge and obtain periodic adjustment to such charges. The Company, as servicer, shall act as SPE's collection agent for the relevant Securitized Asset Cost Charge.

APPALACHIAN POWER COMPANY

Sheet No. NBP-XX

VA. S.C.C. TARIFF NO. 28

RIDER F.O.A.D. S.A.C. Rider

(FRR Open Access Distribution Service – Securitized Asset Cost Rider)

AVAILABILITY OF SERVICE

Effective with service rendered on or after Month Day, YEAR, the rates in Securitized Asset Cost Rider will be applied to all customer bills, rendered under the applicable Standard, O.A.D. and F.O.A.D. Schedules or Special Contracts.

The S.A.C. Rider shall be calculated by multiplying the kWh's of energy and kW's of demand by the rates below:

| Appalachian Power Company | | | |
|--|---------|-----------------------|---------------------------|
| Summary of Securitization Rates | | | |
| Schedule | | Energy per kWh | Demand per kW |
| | | Total in (\$) | Generation in (\$) |
| SGS - (231F,233F,213F,281F) | | \$0.00882 | \$ — |
| SGS Primary (234F) | | \$0.00837 | \$ — |
| GS-Secondary (261F) | Block 1 | \$0.00597 | \$ 0.92 |
| | Block 2 | \$0.00347 | |
| | Block 3 | \$0.00000 | |
| GS-Primary(263F) | Block 1 | \$0.00567 | \$ 0.89 |
| | Block 2 | \$0.00330 | |
| | Block 3 | \$0.00000 | |
| GS-Subtransmission (265F) | Block 1 | \$0.00467 | \$ 0.86 |
| | Block 2 | \$0.00290 | |
| | Block 3 | \$0.00000 | |
| GS-Transmission (267F) | Block 1 | \$0.00459 | \$ 0.85 |
| | Block 2 | \$0.00285 | |
| | Block 3 | \$0.00000 | |
| LPS - Secondary (302F) | | \$0.00000 | \$ 2.74 |
| LPS - Primary (306F) | | \$0.00000 | \$ 2.64 |
| LPS - Subtransmission (308F) (309F) | | \$0.00000 | \$ 2.43 |
| LPS - Transmission (310F) | | \$0.00000 | \$ 2.39 |

This S.A.C. rider is subject to adjustment at least annually to ensure timely payment of principal, interest, and financing costs of securitized asset cost bonds from the effective date of the Securitized Asset Cost Rider until the securitized asset cost bonds have been paid in full or legally discharged and the financing costs have been fully recovered. As approved by the Commission, a special purpose entity ("SPE"), wholly owned by the Company, has been created and is the owner of the deferred fuel cost bonds which includes all rights to impose, bill, charge, collect, and receive

APPALACHIAN POWER COMPANY**Sheet No. NBP-XX****VA. S.C.C. TARIFF NO. 28****RIDER F.O.A.D. S.A.C. Rider****(FRR Open Access Distribution Service – Securitized Asset Cost Rider)**

relevant Securitized Asset Cost Charge and obtain periodic adjustment to such charges. The Company, as servicer, shall act as SPE's collection agent for the relevant Securitized Asset Cost Charge.

APPALACHIAN POWER COMPANY

Sheet No.-NBP-XXD

VA. S.C.C. TARIFF NO. 28

RIDER O.A.D. S.A.C.

(Open Access Distribution Service - Securitized Asset Cost Rider)

AVAILABILITY OF SERVICE

Effective with service rendered on or after Month Day, YEAR, the rates in Securitized Asset Cost Rider will be applied to all customer bills, rendered under the applicable Standard, O.A.D. and F.O.A.D. Schedules or Special Contracts. The S.A.C. Rider shall be calculated by multiplying the kWh's of energy and kW's of demand by the rates below.

| Appalachian Power Company | | | |
|--|---------|-----------------------|----------------------|
| Summary of Securitization Rates | | | |
| Schedule | | Energy per kWh | Demand per kW |
| | | Total in (\$) | Total in (\$) |
| Residential (820) | | \$ 0.00133 | \$ — |
| SWS (890) | | \$ 0.00094 | \$ — |
| SGS (830, 833) | | \$ 0.00094 | \$ — |
| SGS Primary (831) | | \$ 0.00089 | \$ — |
| GS – Secondary (870) | Block 1 | \$ 0.00103 | \$ 0.02884 |
| | Block 2 | \$ 0.00041 | \$ — |
| | Block 3 | \$ — | \$ — |
| GS – Primary (871) | Block 1 | \$ 0.00098 | \$ 0.02786 |
| | Block 2 | \$ 0.00039 | \$ — |
| | Block 3 | \$ — | \$ — |
| GS – Subtransmission (872) | Block 1 | \$ — | \$ — |
| | Block 2 | \$ — | \$ — |
| | Block 3 | \$ — | \$ — |
| GS – Transmission (873) | Block 1 | \$ — | \$ — |
| | Block 2 | \$ — | \$ — |
| | Block 3 | \$ — | \$ — |
| LPS – Secondary (860) | | \$ — | \$ 0.20821 |
| LPS - Primary (861) | | \$ — | \$ 0.20117 |
| LPS - Subtransmission (862) | | \$ — | \$ — |
| LPS - Transmission (863) | | \$ — | \$ — |
| OL (912 + range) | | \$ — | \$ — |

Rates will remain in effect until modified by the Commission

This S.A.C. rider is subject to adjustment at least annually to ensure timely payment of principal, interest, and financing costs of securitized asset cost bonds from the effective date of the Securitized Asset Cost Rider until the securitized asset cost bonds have been paid in full or legally discharged and the financing costs have been fully

Issued:

Effective:

Pursuant to Final Order

Dated:

Case PUR-2025-00116

APPALACHIAN POWER COMPANY**Sheet No.-NBP-XXD****VA. S.C.C. TARIFF NO. 28****RIDER O.A.D. S.A.C.****(Open Access Distribution Service - Securitized Asset Cost Rider)**

recovered. As approved by the Commission, a special purpose entity ("SPE"), wholly owned by the Company, has been created and is the owner of the deferred fuel cost bonds which includes all rights to impose, bill, charge, collect, and receive relevant Securitized Asset Cost Charge and obtain periodic adjustment to such charges. The Company, as servicer, shall act as SPE's collection agent for the relevant Securitized Asset Cost Charge.

Issued:**Pursuant to Final Order****Dated:****Case PUR-2025-00116****Effective:**

APPALACHIAN POWER COMPANY

V.A. S.C.C. TARIFF NO. 28**RIDER F.O.A.D. -S.B.R.R.****(FRR Open Access Distribution - Securitization Base Rate Reduction Rider)**

This Rider is designed to reduce base generation rates on an interim basis, in a manner proscribed by the VA. S.C.C. in accordance with the Financing Order in Case No. PUR-2025-00116. The Securitization Rate Reduction Credit is a credit to customer bills and represents a fixed percentage reduction to base generation (G) rates.

The percentage reduction factor (PRF) is calculated as:

$$(\text{PRF}) = \frac{\text{Annual Reduction in Base Revenues Due To Tax Savings}}{\text{Total Annual Base Adjusted Revenues}}$$

The SBRR Reduction in Base G Revenues Due To Securitization has been determined by the SCC.

$$(\text{PRF}(G)) = -41.35\%$$

This Rider is in effect in lieu of a change in base rates as prescribed in Section 56-249.8.B.2.a.(13) of the Code of Virginia. The rider will remain in effect until modified or discontinued by the State Corporation Commission. The Rate Reduction Credit is determined by multiplying the respective PRF by the respective base generation demand, energy, and lighting unit components of the customer's bill. The PRF is not applied to rate adjustment clauses (including fuel), local tax, or other non-base rate components of the bill.

APPALACHIAN POWER COMPANY

V.A. S.C.C. TARIFF NO. 28**RIDER F.O.A.D. -S.B.R.R.****(FRR Open Access Distribution - Securitization Base Rate Reduction Rider)**

This Rider is designed to reduce base generation rates on an interim basis, in a manner proscribed by the VA. S.C.C. in accordance with the Financing Order in Case No. PUR-2025-00116. The Securitization Rate Reduction Credit is a credit to customer bills and represents a fixed percentage reduction to base generation (G) rates.

The percentage reduction factor (PRF) is calculated as:

$$(\text{PRF}) = \frac{\text{Annual Reduction in Base Revenues Due To Tax Savings}}{\text{Total Annual Base Adjusted Revenues}}$$

The SRR Reduction in Base G Revenues Due To Securitization has been determined by the SCC.

$$(\text{PRF}(G)) = -41.35\%$$

This Rider is in effect in lieu of a change in base rates as prescribed in Section 56-249.8.B.2.a.(13) of the Code of Virginia. The rider will remain in effect until modified or discontinued by the State Corporation Commission. The Rate Reduction Credit is determined by multiplying the respective PRF by the respective base generation demand, energy, and lighting unit components of the customer's bill. The PRF is not applied to rate adjustment clauses (including fuel), local tax, or other non-base rate components of the bill.

**DIRECT TESTIMONY OF
JASON E. BAKER
FOR APPALACHIAN POWER COMPANY
IN VIRGINIA S.C.C. CASE NO. PUR-2025-00116**

SUMMARY OF DIRECT TESTIMONY OF JASON E. BAKER

In my testimony, I describe and support the securitization of the reasonable and necessary operations and maintenance (O&M) system restoration costs in Virginia that APCo incurred as a result of the following storms:

- A. January 2024 Storm
- B. March 2024 Storm
- C. May 2024 Storm
- D. August 2024 Storm
- E. September 2024 Storm (Hurricane Helene)
- F. November 2024 Storm
- G. January 2025 Storm (Winter Storm Blair)
- H. February 2025 Storm (Winter Storm Harlow)

**DIRECT TESTIMONY OF
JASON E. BAKER
FOR APPALACHIAN POWER COMPANY
IN VIRGINIA S.C.C. CASE NO. PUR-2025-00116**

1 **Q. PLEASE STATE YOUR NAME, BUSINESS ADDRESS, AND POSITION.**

2 A. My name is Jason E. Baker. My business address is 200 Association Drive, Suite 201,
3 Charleston, West Virginia, 25311. I am the Vice President of Distribution Operations for
4 APCo.

5 **Q. PLEASE SUMMARIZE YOUR EDUCATIONAL BACKGROUND AND**
6 **BUSINESS EXPERIENCE.**

7 A. I earned a Bachelor of Science Degree in Business Administration from Purdue
8 University Global in 2019. In addition, I obtained a Project Management Professional
9 (PMP) certification in 2016. I have more than 15 years of electric utility experience,
10 primarily focused on project management, generation, and distribution operations. From
11 1998 to 2007, I served in various positions in the Columbus, Ohio area, such as a
12 Geology Intern, Boring Inspector/Drilling Coordinator and Project Manager. In 2007, I
13 joined AEP in Columbus, Ohio, where I served as a Site Construction Manager for six
14 years. From 2013 to 2018, I held generation and distribution project management
15 positions of increasing responsibility in locations that included Columbus, Ohio, and Ft.
16 Wayne, Indiana. In 2018, I was promoted to Project Management Office Manager for
17 I&M Distribution, and in 2021, I was promoted to Director of Operations for I&M
18 Distribution. In November 2022, I was named to my current position.

1 **Q. PLEASE BRIEFLY DESCRIBE YOUR DUTIES AND RESPONSIBILITIES AS**
2 **VICE PRESIDENT OF DISTRIBUTION OPERATIONS.**

3 A. I am responsible for overseeing the planning, construction, operation and maintenance of
4 APCo's distribution system. My duties include the safe and reliable delivery of service
5 to our customers, the extension of service to new customers, and the restoration of service
6 when outages occur. My responsibilities also include overseeing APCo's distribution
7 asset management and major reliability programs, as well as the distribution system
8 vegetation management program.

9 **Q. HAVE YOU PREVIOUSLY SUBMITTED TESTIMONY AS A WITNESS**
10 **BEFORE ANY REGULATORY COMMISSION?**

11 A. Yes. I submitted testimony to the Commission in Case Nos. PUR-2023-00002 and PUR-
12 2024-00024. I also submitted testimony to the Tennessee Public Utilities Commission in
13 Case Nos. 24-00010 and 25-00022, as well as to the West Virginia Public Service
14 Commission in Case Nos. 24-0854-E-42T and 25-0310-E-PC.

15 **Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?**

16 A. The purpose of my testimony is to:

- 17 • Describe and support the securitization of the reasonable and necessary O&M
18 system restoration costs in Virginia that APCo incurred as a result of the
19 following storms:

20 A. January 2024 Storm

21 B. March 2024 Storm

22 C. May 2024 Storm

23 D. August 2024 Storm

E. September 2024 Storm (Hurricane Helene)

F. November 2024 Storm

G. January 2025 Storm (Winter Storm Blair)

H. February 2025 Storm (Winter Storm Harlow)

I. SUMMARY OF DEFERRED STORM COSTS

Q. PLEASE DETAIL THE ESTIMATED DEFERRED STORM COSTS OF THE STORMS LISTED ABOVE.

A. Figure 1 shows the estimated deferred costs that APCo has incurred in Virginia as a result of the storms.

Figure 1 – Deferred Storm Cost Estimate

| Storm | Total |
|---|----------------------|
| January 2024 Storm | \$1,800,858 |
| March 2024 Storm | \$824,551 |
| May 2024 Storm | \$3,821,798 |
| August 2024 Storm | \$3,351,739 |
| September 2024 Storm (Hurricane Helene) | \$67,796,004 |
| November 2024 Storm | \$1,088,388 |
| January 2025 Storm (Winter Storm Blair) | \$10,075,319 |
| February 2025 Storm (Winter Storm Harlow) | \$51,854,301 |
| Total | \$140,612,957 |

Q. PLEASE DESCRIBE THE MAJOR COST DRIVERS FOR THE DISTRIBUTION-RELATED SYSTEM RESTORATION COSTS INCURRED BY THE COMPANY AS A RESULT OF THE STORMS.

A. The major cost drivers for APCo's restoration efforts include the extent of damage to the distribution system and the urgency of the situation. APCo recognized the importance of restoring service quickly. In any restoration effort of this magnitude, it is

1 essential to first restore service to key functions, such as water pumping stations,
2 hospitals, sewer lifts, schools, and businesses. The health, safety, and well-being of all
3 customers is paramount.

4 **Q. WERE THE DEFERRED COSTS RESULTING FROM THE STORMS**
5 **INCURRED IN A COST-EFFECTIVE MANNER?**

6 A. Yes. APCo made every effort to safely, quickly, and successfully restore service in the
7 most cost-effective manner. As described above, the major cost drivers for APCo's
8 restoration efforts included the extent of damage to the distribution system and the
9 urgency of restoring service in order to protect the health, safety, and well-being of
10 customers.

11 **Q. HOW IS APCO PROPOSING TO RECOVER THE DEFERRED COSTS**
12 **RELATED TO STORM RESTORATION EFFORTS?**

13 A. As described more fully in Company witness Castle's testimony, APCo proposes to
14 securitize the deferred storm-related costs that I identified above, pursuant to Virginia
15 Code §56-249.8.

16 **II. STORM AND CUSTOMER IMPACT OVERVIEW**

17 A. JANUARY 2024 STORM

18 **Q. PLEASE DESCRIBE THE JANUARY 2024 STORM.**

19 A. A high wind event with isolated wind gusts up to 60 miles per hour (mph) was
20 experienced through APCo's Virginia service territory in January 2024. The most
21 severely affected areas were Glade Spring, Roanoke, Lebanon, and Tazewell. The first
22 notification of interruption was received on January 12, 2024, at approximately 7 a.m.

1 Restoration efforts were effectively completed on January 14, 2024, at approximately 7
2 p.m.

3 **Q. HOW MANY CUSTOMERS WERE AFFECTED?**

4 A. A total of 21,032 sustained customer interruptions occurred during this major event. The
5 peak number of customers experiencing a sustained interruption of service coincidentally
6 was approximately 5,472, peaking at around 8 p.m. on January 12, 2024.

7 B. MARCH 2024 STORM

8 **Q. PLEASE DESCRIBE THE MARCH 2024 STORM.**

9 A. A high wind event with isolated wind gusts up to 59 mph was experienced through
10 APCo's Virginia service territory in March 2024. The most severely affected areas
11 were Roanoke, Woodlawn, Pulaski, and Christiansburg. The first notification of
12 interruption was received on March 9, 2024, at approximately 10 p.m. Restoration
13 efforts were effectively completed on March 11, 2024, at approximately 9 p.m.

14 **Q. HOW MANY CUSTOMERS WERE AFFECTED?**

15 A. A total of 24,201 sustained customer interruptions occurred during this major event. The
16 peak number of customers experiencing a sustained interruption of service coincidentally
17 was approximately 8,819, peaking at around 12 a.m. on March 11, 2024.

18 C. MAY 2024 STORM

19 **Q. PLEASE DESCRIBE THE MAY 2024 STORM.**

20 A. A high wind event with isolated wind gusts up to 59 mph was experienced through
21 APCo's Virginia service territory in May 2024. The most severely affected areas were
22 Fairlawn, Ewing, Tazewell, Roanoke, and Wise. The first notification of interruption

1 was received on May 26, 2024, at approximately 3 p.m. Restoration efforts were
2 effectively completed on May 29, 2024, at approximately 7 p.m.

3 **Q. HOW MANY CUSTOMERS WERE AFFECTED?**

4 A. A total of 48,276 sustained customer interruptions occurred during this major event. The
5 peak number of customers experiencing a sustained interruption of service coincidentally
6 was approximately 33,021, peaking at around 7 p.m. on May 26, 2024.

7 D. AUGUST 2024 STORM

8 **Q. PLEASE DESCRIBE THE AUGUST 2024 STORM.**

9 A. Bands of thunderstorms with wind gusts up to 44 mph from the remnants of Hurricane
10 Debby were experienced through APCo's Virginia service territory in August 2024.
11 The most severely affected areas were Lynchburg, Roanoke, Lovingson, and Rocky
12 Mount. The first notification of interruption was received on August 8, 2024, at
13 approximately 3 p.m. Restoration efforts were effectively completed on August 10,
14 2024, at approximately 5 p.m.

15 **Q. HOW MANY CUSTOMERS WERE AFFECTED?**

16 A. A total of 22,920 sustained customer interruptions occurred during this major event. The
17 peak number of customers experiencing a sustained interruption of service coincidentally
18 was approximately 9,177, peaking at around 12 a.m. on August 9, 2024.

19 E. SEPTEMBER 2024 STORM (HURRICANE HELENE)

20 **Q. PLEASE DESCRIBE THE SEPTEMBER 2024 STORM (HURRICANE**
21 **HELENE).**

22 A. Heavy rain and high winds up to 65 mph caused by Category 4 storm Hurricane Helene
23 were experienced throughout APCo's Virginia service territory in September 2024.

1 Numerous areas were severely affected, including Grayson Highlands, Burkes Garden,
2 Woodlawn, Hillsville, and other areas. The first notification of interruption was
3 received on September 26, 2024, at approximately 3 p.m. Restoration efforts were
4 effectively completed on October 7, 2024, at approximately 5 p.m.

5 **Q. HOW MANY CUSTOMERS WERE AFFECTED?**

6 A. A total of 255,210 sustained customer interruptions occurred during this major event.
7 The peak number of customers experiencing a sustained interruption of service
8 coincidentally was approximately 151,419, peaking at around 2 p.m. on September 27,
9 2024.

10 **Q. DID APCO UTILIZE OUTSIDE ASSISTANCE WITH RESTORATION**
11 **EFFORTS RELATED TO HURRICANE HELENE?**

12 A. Yes. Over 7,000 personnel assisted in the restoration efforts in Virginia, Tennessee,
13 and West Virginia. This included internal personnel, business partners, AEP operating
14 company personnel (Public Service Company of Oklahoma, AEP Texas, AEP Ohio,
15 Southwestern Electric Power Company, Kentucky Power, and Indiana Michigan
16 Power), and other off-system resources acquired through the mutual assistance process.
17 In total, personnel from 27 different states, from as far away as Nebraska, helped
18 APCo's crews and contractors restore electric service.

19 F. NOVEMBER 2024 STORM

20 **Q. PLEASE DESCRIBE THE NOVEMBER 2024 STORM.**

21 A. A heavy rain and high wind event was experienced in APCo's Virginia service territory
22 in November 2024. The most severely affected areas were Gate City, Roanoke,
23 Fieldale, and Lebanon. The first notification of interruption was received on November

20, 2024, at approximately 7 a.m. Restoration efforts were effectively completed on November 23, 2024, at approximately 6 p.m.

Q. HOW MANY CUSTOMERS WERE AFFECTED?

A. A total of 35,584 sustained customer interruptions occurred during this major event. The peak number of customers experiencing a sustained interruption of service coincidentally was approximately 9,546, peaking at around 7 p.m. on November 20, 2024.

G. JANUARY 2025 STORM (WINTER STORM BLAIR)

Q. PLEASE DESCRIBE THE JANUARY 2025 STORM (WINTER STORM BLAIR).

A. An ice event with ice accumulations up to 0.63 inches was experienced throughout APCo's Virginia Service territory in January 2025. Numerous areas were affected including but not limited to Bluefield, Rustburg, Stewartsville, and Blacksburg. The first notification of interruption was received on January 6, 2025, at approximately 2 a.m. Restoration efforts were effectively completed on January 9, 2025, at approximately 3 p.m.

Q. HOW MANY CUSTOMERS WERE AFFECTED?

A. A total of 116,707 sustained customer interruptions occurred during this major event. The peak number of customers experiencing a sustained interruption of service coincidentally was approximately 49,708, peaking at around 8 a.m. on January 9, 2025.

Q. DID APCO UTILIZE OUTSIDE ASSISTANCE WITH RESTORATION EFFORTS RELATED TO WINTER STORM BLAIR?

A. Yes. Over 6,000 personnel assisted in the restoration efforts in Virginia and West Virginia. This included internal personnel, business partners, AEP operating company

1 personnel (AEP Ohio and Indiana Michigan Power), and other off-system resources
2 acquired through the mutual assistance process. In total, personnel from states as far
3 away as Alabama, helped APCo's crews and contractors restore electric service.

4 H. FEBRUARY 2025 STORM (WINTER STORM HARLOW)

5 **Q. PLEASE DESCRIBE THE FEBRUARY 2025 STORM (WINTER STORM**
6 **HARLOW).**

7 A. A heavy wet snow, freezing rain, and ice event was experienced throughout APCo's
8 Virginia Service territory in February 2025. Numerous areas were affected including
9 but not limited to Roanoke, Rocky Mount, and Lynchburg. The first notification of
10 interruption was received on February 11, 2025, at approximately 9 a.m. Restoration
11 efforts were effectively completed on February 18, 2025, at approximately 6 p.m.

12 **Q. HOW MANY CUSTOMERS WERE AFFECTED?**

13 A. A total of 277,952 sustained customer interruptions occurred during this major event.
14 The peak number of customers experiencing a sustained interruption of service
15 coincidentally was approximately 99,182, peaking at around 9 a.m. on February 13,
16 2025.

17 **Q. DID APCO UTILIZE OUTSIDE ASSISTANCE WITH RESTORATION**
18 **EFFORTS RELATED TO WINTER STORM HARLOW?**

19 A. Yes. Over 7,000 personnel assisted in the restoration efforts in Virginia. This included
20 internal personnel, business partners, AEP operating company personnel (AEP Ohio,
21 Public Service Company of Oklahoma, AEP Texas, and Indiana Michigan Power), and
22 other off-system resources acquired through the mutual assistance process. In total,

1 personnel from states as far away as Texas, helped APCo's crews and contractors
2 restore electric service.

3 **Q. DOES THIS CONCLUDE YOUR TESTIMONY?**

4 A. Yes.

APCo Exhibit No. ____
 Witness: SM
 Page 1 of 71

**DIRECT TESTIMONY OF
 STEVEN MOFFITT
 ON BEHALF OF APPALACHIAN POWER COMPANY
 BEFORE THE STATE CORPORATION COMMISSION OF THE
 COMMONWEALTH OF
 VIRGINIA IN CASE NO. PUR-2025-00116**

**INDEX TO THE DIRECT TESTIMONY OF
 STEVEN MOFFITT
 FOR
 APPALACHIAN POWER COMPANY**

| | | |
|------|--|----|
| I. | INTRODUCTION | 3 |
| II. | SECURITIZATION BACKGROUND | 12 |
| III. | DESCRIPTION OF PROPOSED TRANSACTION | 23 |
| | A. Transaction Structures | 23 |
| | B. SAC Charge Collection | 39 |
| | C. Accounts | 46 |
| | D. Key True-up Mechanism Considerations | 49 |
| IV. | DISCUSSION OF THE EXECUTION PROCESS | 53 |
| | A. Rating Agency Process | 53 |
| | B. Marketing Process | 55 |
| | C. Key Issuance Advice Letter Considerations | 55 |
| V. | DISCUSSION OF THE FINANCING ORDER | 57 |
| VI. | CONCLUSION | 65 |

APCo Exhibit No. _____

Witness: SM

Page 2 of 71

APCo Exhibit No. ____ (SM) Attachment 2 Utility Securitization Transactions,
1997-Present

1 I. INTRODUCTION

2 Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

3 A. My name is Steven Moffitt, and my business address is 200 West Street,
4 New York, New York 10282.

5 Q. BY WHOM ARE YOU EMPLOYED AND IN WHAT CAPACITY?

6 A. I am a Managing Director, Co-Head of the Americas Structured Finance
7 Group within the Capital Solutions Group at Goldman Sachs & Co.
8 ("Goldman").

9 Q. PLEASE BRIEFLY DESCRIBE YOUR EDUCATIONAL BACKGROUND
10 AND PROFESSIONAL EXPERIENCE.

11 A. I received a Bachelor of Arts in Political Economy degree from Tulane
12 University, and I am a CFA charterholder. Prior to joining Goldman in 2005,
13 I was employed by Fitch Ratings as a Senior Director in Structured Products,
14 where I worked on several rate reduction bonds. Before Fitch Ratings, as an
15 investment banking analyst at Prudential Securities, I covered a range of
16 industry sectors including investor-owned utilities. Currently, I oversee a
17 franchise that covers a range of asset types such as consumer, corporate,
18 credit intermediation, novel receivables lending, nonbypassable ratepayer
19 charges, solar loans and leases, triple net leases, intellectual property, small
20 business loans, and small and medium enterprise securitization.

1 **Q. DO YOU POSSESS ANY PROFESSIONAL LICENSES RELATED TO THE**
2 **SECURITIES INDUSTRY?**

3 A. Yes. I am Series 7 (General Securities Representative Qualification)
4 qualified by the Financial Industry Regulatory Authority, which allows an
5 individual to solicit, purchase, or sell all securities products, including asset-
6 backed securities. I am also Series 79 (Investment Banking Representative)
7 qualified, which allows an individual to advise on and facilitate debt and
8 equity offerings (public offerings or private placements), mergers and
9 acquisitions, tender offers, financial restructurings, asset sales, divestitures,
10 corporate reorganizations and business combination transactions. In
11 addition, I am Series 24 (General Securities Principal and Banking Principal)
12 qualified, which allows an individual to supervise Series 7 and Series 79
13 activities.

14 **Q. ON WHOSE BEHALF ARE YOU TESTIFYING IN THIS PROCEEDING?**

15 A. I am testifying on behalf of Appalachian Power Company (the "Company").

16 **Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?**

17 A. The purpose of my testimony is to:

- 18 1. Provide background information on the use of utility securitizations in
19 other jurisdictions as well as discuss some of the basic elements of the
20 proposed Bonds (as defined below). "Utility securitization" is a generic

term used to refer to securitizations for several different recovery purposes. Some of the other names used to refer to this structure include rate reduction bonds, stranded cost bonds, storm recovery bonds, disaster recovery bonds, system restoration bonds, and restructuring bonds.

2. Present the proposed preliminary securitized asset cost bond issuance structure for use by the Company in Virginia and discuss certain structuring and marketing considerations.

3. Discuss the primary rating agency criteria and structural features for utility securitizations to obtain the desired triple-A ratings.

4. Discuss several of the key commercial terms of the Bonds that the Company expects will be required for a successful transaction, as well as key provisions of the proposed financing order.

Q. ARE YOU SPONSORING ANY EXHIBITS WITH YOUR DIRECT TESTIMONY?

A. Yes. I am sponsoring the following exhibits described below and attached to my testimony:

- APCo Exhibit No. ____ (SM) Attachment 1 – Preliminary Transaction Structure

- 1 • APCo Exhibit No. _____ (SM) Attachment 2 – Utility Securitization
2 Transactions, 1995-Present

3 Each of these exhibits were prepared under my direction and control, and to
4 the best of my knowledge all factual matters contained therein are true and
5 accurate.

6 **Q. PLEASE SUMMARIZE YOUR TESTIMONY IN THIS PROCEEDING.**

7 A. Pursuant to the Virginia Code § 56-249.8, (the “Securitization Statute”), the
8 Company is submitting a Petition for a financing order (the “Petition”), which
9 requests approval of a financing order authorizing the issuance of bonds to
10 finance though securitization the securitized asset costs consisting of (1)
11 Virginia jurisdictional distribution-related storm restoration costs incurred
12 between January 1, 2024 and March 31, 2025; (2) the Virginia jurisdictional
13 share of the undepreciated plant balances of the Amos and Mountaineer
14 power plants as of December 31, 2023; and upfront financing costs
15 necessary for the issuance of the Bonds..

16 In this testimony I recommend the following:

- 17 • The adoption of an irrevocable financing order that creates securitized
18 asset cost property for the benefit of the Company, consisting of a non-
19 bypassable securitized asset cost charge (the “SAC Charge”) included
20 on the bills of the Company’s retail customers, which charge is subject to

1 adjustment by the application of a formula-based true-up mechanism, or
2 “true-up” process, in order to ensure that collection of such SAC Charge
3 would be sufficient to pay the collective debt service on the Bonds (as
4 defined herein) together with ongoing financing costs.

- 5 • The authorization in such financing order of the creation of a bankruptcy-
6 remote special purpose entity (“SPE”) organized as a Delaware limited
7 liability company owned by the Company to offer approximately \$1.38
8 billion of bonds in one or more series or tranches (the “Bonds”).
- 9 • The authorization in such financing order of the sale of the interest in
10 securitized asset cost property initially held by the Company to the SPE
11 in a “true-sale” in exchange for the net proceeds from the sale of the
12 Bonds. These transaction elements are designed to ensure that a
13 bankruptcy or other credit event of the Company or American Electric
14 Power Company, Inc. (“AEP”) would not impact the SPE or the credit
15 quality of the Bonds.
- 16 • The marketing and sale of the Bonds through a public, Securities and
17 Exchange Commission (“SEC”) registered transaction to achieve the
18 greatest level of liquidity and the broadest investor universe for the
19 Bonds.

- 1 • The need for the financing order to afford the Company the flexibility to
2 establish the final terms and conditions of the Bonds in order to ensure
3 the transaction can be executed on a basis that allows the Bonds to
4 receive the highest possible credit ratings.

5 Specifically, my testimony describes how a securitization meeting the
6 requirements outlined above is expected to produce cost savings to
7 customers and to mitigate rate impacts on customers, as compared to
8 traditional financing mechanisms or traditional cost recovery methods
9 available to the Company.

10 **Q. PLEASE ELABORATE FURTHER ON THE GOAL OF UTILITY**
11 **SECURITIZATIONS AND HOW YOUR RECOMMENDATIONS HELP TO**
12 **ACHIEVE THIS GOAL.**

13 **A.** Before I discuss the securitization process in detail, I will review here (1) the
14 principal goal of utility securitizations, (2) how these securitizations differ
15 from utility corporate debt and other structured debt, and (3) why the
16 issuance of the financing order, consistent with the objectives of the
17 Securitization Statute, is critical to achieve the goal of utility securitizations
18 – to deliver cost savings to customers.

19 **Significant customer cost savings.** As reflected in APCo Exhibit
20 No. ____ (SM) Attachment 2, over \$93 billion of rate reduction bonds have

1 been issued successfully by or on behalf of utilities since the mid-1990s to
2 recover commission-authorized costs in a manner designed to produce
3 significant customer savings.

4 With the appropriate statutory framework and a carefully crafted
5 financing order, securitizations benefit from a significantly lower cost of
6 capital compared to traditional investor-owned utility rate mechanisms.
7 Typically, traditional rate mechanisms set customer rates based upon a
8 utility's weighted cost of capital, which includes an average unsecured
9 corporate debt cost along with a generally higher allowed return on 50
10 percent or more equity capital in the calculation. Utility securitization
11 customer charges are typically based upon a capital cost comprised of 99.5
12 percent AAA-rated debt and 0.5 percent equity. By significantly increasing
13 the percentage and credit quality of debt and virtually eliminating the equity
14 return component of these transactions, utility ratepayers can save millions
15 of dollars in carrying costs associated with the recovery of these legitimate
16 utility expenses.

17 **Distinct from utility unsecured debt.** Utility securitizations are quite
18 different from traditional utility debt offerings. Unsecured utility corporate
19 debt offerings are full recourse obligations of the utility. In contrast, utility
20 securitizations are non-recourse to the corporate credit of the utility. Lack of

1 recourse to the utility means that the utility securitizations can achieve credit
2 ratings above that of the utility itself, and indeed are designed to achieve the
3 highest possible bond ratings: AAA or the equivalent.

4 **The State Corporation Commission of Virginia's ("Commission")**
5 **Financing Order is critical.** For an investor-owned utility to recover
6 securitized asset costs in a manner that results in customer savings through
7 securitization, the proper statutory framework is required, coupled with a
8 Commission-issued financing order that is consistent with the objectives of
9 the authorizing statute. I believe the Securitization Statute has the proper
10 framework authorizing these securitizations consistent with prior precedents
11 and outlines the necessary statutory requirements for securitization
12 financing orders. I also believe that the Company, through the Petition and
13 accompanying testimony, has proposed a financing order that meets the
14 requirements for the Bonds to achieve AAA ratings or the equivalent.

15 Utility securitizations aim to achieve reasonable securitized asset
16 charges for customers by issuing debt with the highest possible ratings
17 (resulting in the lowest comparative price) and do so by structuring the
18 transactions without what is called "overcollateralization." Utility
19 securitizations, like other types of securitization debt, are also non-recourse
20 to the sponsor of the transaction and the securitization issuer is bankruptcy-

1 remote to the sponsor. A key factor in determining the ratings for most other
2 securitizations is "overcollateralization," meaning an incremental amount of
3 collateral that is pledged to the bondholders to provide extra security if the
4 pledged assets do not perform as expected. The excess cash flow from the
5 additional collateral increases what is called the "debt service coverage," or
6 the amount of cash available to pay principal and interest on the bonds. For
7 each type of securitization, rating agencies will run stress scenarios to
8 determine how much overcollateralization and debt service coverage is
9 required to achieve a particular rating. However, in a typical utility
10 securitization structure, the rating agencies do not require any extra
11 collateral to be held in the SPE formed to issue the bonds in order to achieve
12 the highest possible rating (AAA or equivalent), because the structure
13 instead includes a mandatory true-up mechanism that adjusts customer
14 charge over time to pay debt service and ongoing financing costs on a timely
15 basis. This combination of AAA (or equivalent) ratings and the lack of any
16 excess collateral and therefore excess debt service coverage is unique to
17 this type of securitization structure. Rarely is overcollateralization required
18 in utility securitizations, meaning that customers do not contribute (through
19 higher charges) more than is necessary to pay debt service, which enhances
20 customer savings. As a consequence of the absence of

1 overcollateralization, utility securitizations receive increased scrutiny from
2 rating agencies and investors because the structures do not have the
3 security of additional cash or collateral.

4 It is the financing order that leads to the creation of the intangible
5 property that serves as collateral for a utility securitization. The financing
6 order must be crafted in a manner to enable the bonds to achieve the highest
7 possible credit ratings (AAA or equivalent). Moreover, for investors to accept
8 these bonds with virtually no excess debt service coverage or
9 overcollateralization, the rating agencies and investors need to be
10 comfortable that over the life of the transaction, there is limited risk of political
11 and regulatory interference from the legislature and/or a subsequent
12 Commission that may delay payments on the bonds or change the
13 protections built into the financing order. The way the financing order is
14 crafted can serve as important evidence that such risk is sufficiently
15 minimized in these transactions. The structure recommended in the
16 Company's Petition, corresponding testimony and exhibits is designed to
17 result in a financing order that satisfies these important requirements.

18 **II. SECURITIZATION BACKGROUND**

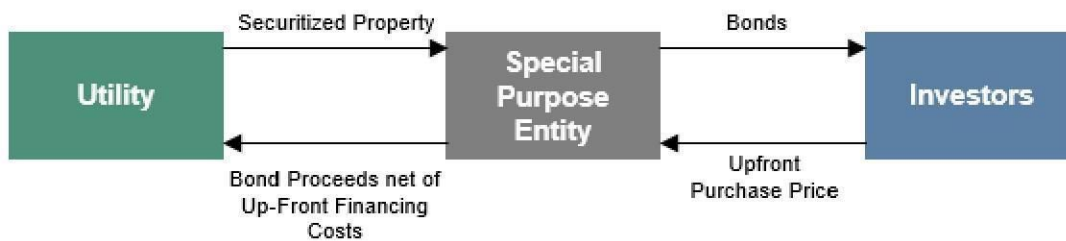
19 **Q. PLEASE PROVIDE A BASIC DESCRIPTION OF SECURITIZATION.**

1 A. In general, securitization is the process in which an owner of a cash flow-
2 generating asset sells the asset in exchange for an upfront payment, done
3 in a manner that legally isolates (or decouples) the cash flow-generating
4 asset from the credit profile of the owner/seller. The sale process is intended
5 to protect investors from any changes in credit circumstances, or even the
6 bankruptcy, of the entity that sold the asset, and makes the bonds “non-
7 recourse” to the seller (i.e., the seller is not responsible for making payments
8 on the bonds). Therefore, the “credit” of a securitization is the ability of the
9 legally isolated asset to produce a set of payments (or cash flows) for
10 investors, who purchased an interest in the asset in the form of a
11 securitization bond. Securitization bonds are fixed income debt securities
12 where the investors rely solely on the legally isolated asset and associated
13 cash flows to pay interest and principal on the issued debt securities.

14 In the context of utility securitizations, the underlying cash flow-
15 generating asset is an intangible property right (described in the
16 Securitization Statute and the financing order as securitized asset cost
17 property) authorized by state legislation and created pursuant to a financing
18 order. This property right includes the right to impose upon the utility’s
19 existing and future retail customers, except exempt retail access customers,
20 the charges required to pay the interest, principal and other ongoing

1 financing costs associated with the debt securities issued in the
2 securitization on a timely basis, as scheduled. This property right is also
3 referred to as the collateral for the transaction. The utility sells the property
4 right to the SPE which, as its name implies, functionally performs no
5 activities other than purchase the collateral and issue bonds to investors to
6 fund that purchase. The SPE is typically prohibited from issuing any
7 additional debt or having any other creditor who could upset this
8 arrangement with the securitization bondholders. The conveyance of the
9 property right from the utility to the SPE is also structured as a "true sale,"
10 as it legally isolates the collateral from the assets of the seller of that
11 collateral. A true sale of the collateral supports the "bankruptcy-remoteness"
12 of the SPE and the securitization bonds, which allows for the securitization
13 bonds to achieve a higher credit rating than other debt of the utility.

14 To have the funds needed to purchase the collateral, the SPE directly
15 or indirectly issues bonds to investors, collateralized by the property rights it
16 purchases from the seller. In exchange for the issued bonds, investors pay
17 an upfront purchase price, which net proceeds are passed through the SPE
18 back to the utility. Figure A, below, is a simplified indicative schematic of a
19 securitization transaction closing mechanics for the typical securitization
20 described above:



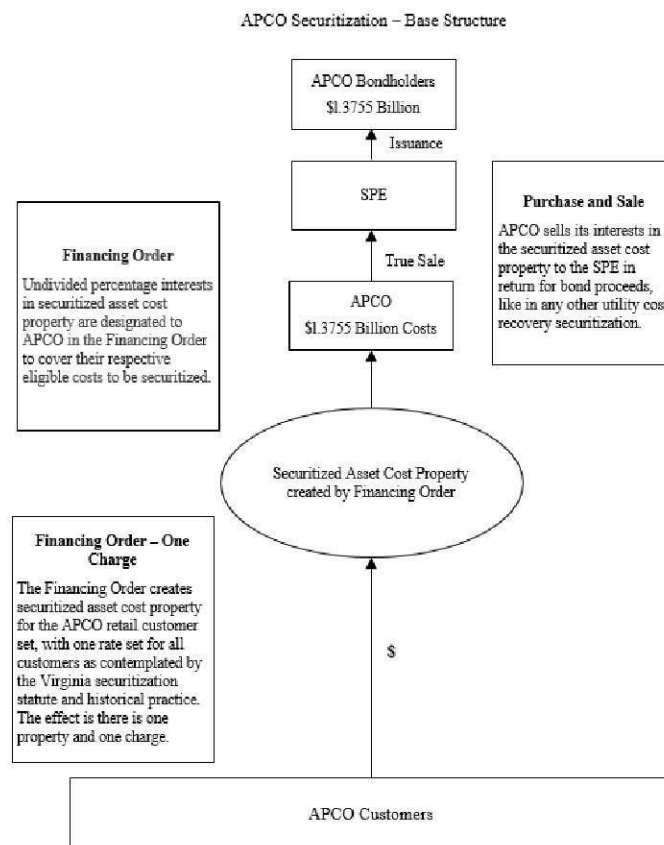
1
2 In addition to the essential structure described above, the
3 securitization process also includes another key component: ongoing
4 collections of the cash generated by the collateral. Here, the utility and a
5 trustee ("Trustee," typically a commercial bank experienced with
6 securitization trust services) play important roles. The utility will continue to
7 perform its routine billing and collecting functions. In the context of
8 securitization, this function is referred to as servicing, and the utility takes on
9 the role as the servicer. In addition to its routine billing and collecting
10 functions, as a servicer, the utility will also perform certain reporting duties
11 with respect to the amounts of money collected and non-performance
12 issues. The utility will perform these functions for the SPE pursuant to arm's
13 length contractual arrangements known as the servicing agreements. It is
14 important that this servicing arrangement is on arm's length terms, as that
15 supports the fact that the SPE is fully bankruptcy-remote from the Company
16 and there should be no recourse implied from this relationship.

17 In the context of a securitization, the Trustee also plays an important
18 role in the safekeeping of the ongoing collections and the distributions of

1 principal and interest to investors. After receiving collections from
2 customers, the servicer remits the monies collected to a collection account
3 held at the Trustee, which holds those monies in trust until it periodically
4 distributes them to investors according to a pre-determined set of payment
5 priorities (the "waterfall") and schedule (typically semi-annually). The
6 Trustee serves as a representative of the bondholders and ensures that their
7 rights are protected in accordance with the terms of the transaction. They
8 may also enforce remedies on behalf of bondholders in the event of a
9 default.

10 **Q. IS THE PROPOSED TRANSACTION STRUCTURE SIMILAR TO OTHER**
11 **UTILITY SECURITIZATIONS?**

12 **A. Yes.**



1

2 **Q. WHAT IS THE VOLUME OF UTILITY SECURITIZATIONS THAT HAVE**

3 **BEEN TRANSACTED TO DATE, AND WHAT IS THE TYPICAL SIZE OF**

4 **A TRANSACTION?**

5 **A.** Utility securitizations are structured based upon well-established rating

6 criteria and have been utilized since 1995. According to public records,

7 including SEC registration filings, since 1995 to date, there has been in

8 excess of \$93 billion in issuances. I attach a list of utility securitization

9 transactions as APCo Exhibit No. ____ (SM) Attachment 2.

1 Utility securitizations by definition are episodic in nature, raising funds
2 in a very specific amount and for a specific purpose, including to recover
3 stranded costs, costs related to the earlier retirement of generation assets
4 and costs associated with large storms or wildfires. The size of the above
5 historical transactions is therefore not necessarily a reflection of market
6 capacity at that time.

7 **Q. WHO ARE THE TYPICAL INVESTORS THAT PURCHASE UTILITY**
8 **SECURITIZATION BONDS?**

9 A. A broad range of investors have participated in utility securitization bond
10 issuances to date, including domestic and international banks, institutional
11 and retail trust funds, money managers, investment advisors, pension funds,
12 insurance companies, securities lenders, state trust funds, and corporate
13 cash managers. Traditional utility unsecured note, first mortgage bond and
14 municipal bond investors have also participated broadly, as some perceive
15 utility securitization bonds as a highly rated substitute for the product they
16 traditionally purchase.

17 Utility securitization bonds are a well-established asset class and are
18 broadly understood by a diverse set of investors. Utility securitization bonds
19 backed by securitization property and financing orders have maintained their
20 high ratings even when the credit of the utility servicer has been downgraded

or the utility servicer has entered bankruptcy, thus justifying investors' confidence in the bonds and their structure.

Q. HAVE OTHER COLLATERAL TYPES BEEN FINANCED USING SECURITIZATION IN A SIMILAR MANNER?

A. Yes, the market for securitized products or asset-backed securities ("ABS") is large and liquid. The first public asset-backed securities were issued in 1985 by Sperry Lease Finance, which securitized computer leases. A variety of asset types have been securitized in the public markets since then, including credit card receivables, trade receivables, automobile loans and leases, student loans, home equity loans and lines of credit, equipment leases, manufactured housing contracts, unsecured consumer loans and a number of other less traditional assets. The following table shows a breakdown of 2024 U.S. public securitization issuances by asset type.

TABLE 2
2024 UNITED STATES SECURITIZATION ISSUANCE BY ASSET TYPE

| Line No. | Asset Type | Volume (\$ Billions) | Percentage (%) |
|----------|----------------|----------------------|----------------|
| 1 | Auto | 160.6 | 48.6 |
| 2 | Other Esoteric | 109.5 | 33.1 |
| 3 | Equipment | 27.7 | 8.4 |
| 4 | Credit Cards | 19.2 | 5.8 |
| 5 | Student Loan | 9.4 | 2.8 |
| 6 | Utility | 4.3 | 1.3 |
| 7 | Total | 330.7 | 100.0 |

Source: Finsight as of 06/24/2025 Note that does not sum to total due to rounding. Numbers as shown on site.

1 The securitization market has settled into a mature market operation
2 since the financial crisis, and even hit a post-crisis volume high in 2024, with
3 issuances totaling \$330.7 billion in 2024, which was up 24 percent from \$267
4 billion in 2023, and up 12 percent from the previous high of \$294.3 billion in
5 2021 (Source: Finsight as of 06/24/2025).

6 The tone of the broadly syndicated ABS market in 2024 was extremely
7 strong and well-bid. The market digested historically large amounts of
8 issuances, while also achieving tight spreads. The year saw robust investor
9 engagement in new issuance deals, which resulted in healthy
10 oversubscription levels in securitizations across a variety of asset classes.
11 This in turn granted issuers a greater ability to tighten in pricing throughout
12 marketing processes. The new issuance ABS market has experienced some
13 normal cyclicalities through the first half of the year. The calendar year started
14 strong with Issuers pushing to announce new deals and investors actively
15 deploying capital across ABS sectors. After a period of macro volatility early
16 in Q2 in both the domestic and global credit markets, issuance levels and
17 credit spreads have reverted towards more positive indicators. As is always
18 the case, we expect that market execution going forward to be a function of
19 both the broader economic environment and supply and demand technicals
20 across the structured products market. There have been several recent

1 utility securitizations. The most recent transaction, which was for American
2 Electric Power in Kentucky, priced on June 5, 2025. The transaction was
3 ~\$478 million and was structured as a unitranche with a WAL of 12.13 years.
4 It priced at a spread of 90 basis points to treasuries. Cleco Power in
5 Louisiana priced on March 5, 2025. The transaction was \$305 million priced
6 over two tranches (~5.4 years and ~15.5 years) and priced at a spread of
7 70 basis points and 80 basis points to treasuries. New York State Electric &
8 Gas Corporation ("NYSEG") and Rochester Gas and Electric Company
9 ("RG&E") priced on February 4, 2025 and February 6, 2025 respectively and
10 Southwestern Electric Power ("SWEPCO"), another affiliate of American
11 Electric Power and Ameren, both priced on December 10, 2024. The
12 NYSEG transaction was \$710.6 million priced over three tranches (~2.2
13 years, ~5.7 year and ~8.9 years) and priced at a spread of 50 basis points,
14 55 basis points and 65 basis points to treasuries. The RG&E transaction
15 was \$75.3 million, structured as one ~5.77 year tranche, priced at a spread
16 of 65 basis points to treasuries. The SWEPCO transaction was \$337 million
17 in size, structured as one ~8.5 year tranche that priced at a spread of 70
18 basis points to treasuries. The Ameren transaction was \$476 million in size,
19 structured as one ~8.5 year tranche that priced at a spread of 62 basis points
20 to treasuries.

While the transaction size in the securitization market typically ranges from approximately \$100 million to \$2.0 billion, there are several examples of larger non-utility securitizations completed with a total deal size exceeding \$2 billion (Table 3).

TABLE 3
LARGEST STANDARD (NON-UTILITY) SECURITIZATION TRANSACTIONS (2011-2024)

| Rank | Transaction | Issuer | Date | Asset Class | Rating(sf) | Issuance (\$mm) |
|------|---------------|-----------------|---------|------------------|------------|-----------------|
| 1 | SSC 2018-1 | Sprint | Mar-18 | Spectrum | BBB | \$3,937 |
| 2 | SSC 2016-1 | Sprint | Oct-16 | Spectrum | BBB | \$3,500 |
| 3 | SUBWAY 2024-1 | Subway | May-24 | Whole-Bus | BBB | \$3,350 |
| 4 | AMXCA 2021-1 | Amex | Nov-21 | Credit Card | AAA | \$2,750 |
| 5 | AMXCA 2022-2 | Amex | May-22 | Credit Card | AAA | \$2,750 |
| 6 | USRE 2021-1 | USAA | Oct-21 | Triple Net Lease | AA-/A- | \$2,691 |
| 7 | SCFT 2014-A | Springcastle | Sep-14 | Consumer | AA-B | \$2,559 |
| 8 | SDART 2021-3 | Banco Santander | July-21 | Auto | AAA - BBB | \$2,500 |
| 9 | COMET 2022-A2 | Capital One | Jun-22 | Credit Card | AAA | \$2,500 |
| 10 | DNKN 2015-1 | Dunkin Brands | Jan-15 | Whole-Bus | BBB | \$2,500 |

Source: Finsight as of 06/24/2025.

The investors who purchase utility securitization bonds generally come from the ABS market, as well as crossover buyers from the corporate debt market. In both cases, they are accounts focused on investing in very highly rated bonds of typically longer (i.e., more than three years) durations.

Q. HOW IS THE PRINCIPAL FOR THE BONDS REPAID?

A. The Bonds will be different from utility unsecured bonds because these Bonds are non-recourse to the Company, and instead paid exclusively from the SAC Charge. Utility unsecured bonds are fully recourse to the respective

1 utility, with funds for repayment coming from general operations. As the
2 Bonds are structured to be isolated from each sponsor utility's credit profile.
3 Investors who purchase the Bonds will only have recourse to the SPE and
4 its collateral. In addition, the Bonds will be structured to amortize with
5 scheduled principal payments through specific points in time prior to the
6 rated legal maturity date of the Bonds. These points in time are referred to
7 as the expected or scheduled payment dates for each of the tranches of
8 Bonds that may be issued in the transaction, as further described below.
9 Amortizing, or sinking-fund, structures are distinct from traditional utility
10 unsecured or secured bonds, which generally have only a single "bullet"
11 principal payment at the bond maturity date. Another difference is that the
12 Bonds will be structured with a time gap between each tranche's scheduled
13 final payment and the rated legal maturity of that tranche. This time gap,
14 sometimes called a "maturity cushion," provides extra time to pay the
15 outstanding principal amount of the tranche in full in the event that
16 unforeseen circumstances such as significant declines from either the
17 forecasted energy demand, forecasted consumption, and/or the forecasted
18 number of customers, cause a material decrease in SAC Charge collections.

19 III. DESCRIPTION OF PROPOSED TRANSACTION

20 A. *Transaction Structures*

1 **Q. PLEASE DESCRIBE THE TRANSACTION STRUCTURE OF THE**
2 **COMPANY'S PROPOSED BONDS.**

3 A. This structure is substantially similar to that employed in typical utility
4 securitization bond offerings, including the prior utility securitization in
5 Virginia. The proposed transaction will involve the creation by the Company
6 of a wholly-owned SPE, which would be formed as a Delaware limited
7 liability company with the Company as the sole member. The SPE will serve
8 as the issuer of the Bonds (the "Issuer"). The Company, pursuant to the
9 authorization granted to it by the Commission in a financing order, will create
10 and sell its interest in the securitized asset cost property to the SPE. The
11 SPE will issue Bonds to investors and will finance the purchase of the
12 interest in the securitized asset cost property with the proceeds from the sale
13 of the Bonds, thereby acquiring all right, title, and interest of the Company
14 to collect the SAC Charge to pay and secure the debt service payments of
15 the Bonds and associated financing costs. The SPE will grant to the Trustee,
16 for the benefit of the bondholders, a lien on its interest in the securitized
17 asset cost property and other trust property.

1 **Q PLEASE DESCRIBE THE FORMATION OF THE SPE THAT WILL ISSUE**
2 **THE BONDS.**

3 A. The Company's securitization transaction is generally expected to follow a
4 process similar to the process for utility securitizations described above. The
5 Company will form an SPE as a Delaware limited liability Company which
6 will be wholly owned by the Company¹. The SPE's LLC Agreement will
7 contain provisions designed to ensure that it will be a bankruptcy-remote
8 limited purpose entity. When I refer to "bankruptcy-remote," I mean that the
9 SPE is structured so that in the unlikely event of a Company or AEP
10 bankruptcy, the SPE would not be consolidated with the Company or other
11 AEP entities and would not be included in the Company's or AEP's
12 bankruptcy estate. Therefore, the payment of securitization debt service
13 would not be "stayed" or stopped during any bankruptcy process.
14 Importantly, the SPE is structured to operate independently, requiring that
15 fees paid to third parties providing services to the SPE, including the
16 Company in its role as servicer and administrator of the SPE, are set on an
17 arms-length basis. These provisions supporting the bankruptcy-remote

¹ The Company requests the authority to establish one or more SPEs to issue one or more series of securitized asset cost bonds to recover the full amount of its securitized asset costs. Any references to the SPE in this testimony shall refer to any SPE created by the Company pursuant to the requested financing order.

1 nature of the SPE are critical to achieving the desired “AAA” equivalent
2 ratings for the Bonds.

3 **Q. WHAT MAKES UP THE “SECURITIZED ASSET COST PROPERTY”**
4 **THAT THE COMPANY SELLS TO THE SPE?²**

5 A. The securitized asset cost property is created pursuant to the financing order
6 and, when sold to the SPE, consists of the right to impose, bill, charge,
7 collect, and remit the SAC Charge that shall be used to pay and secure the
8 payment of the Bonds and ongoing financing costs, and including the right
9 to obtain adjustments to the SAC Charge, and any revenues, collections,
10 claims, rights to payments, payments, money, or proceeds arising from the
11 rights and interests created under the financing order issued by the
12 Commission. The SAC Charge will be a non-bypassable charge, meaning
13 that it will be imposed on each retail customer (other than exempt retail
14 access customers) and may not be avoided by any Virginia retail customer
15 of the Company (other than exempt retail access customers) or their
16 successors and must be paid by any such customer that receives service
17 from such utility (irrespective of the generation supplier of such customer) or
18 its successors for as long as the Bonds are outstanding. Included in this
19 property right is the requirement, over the full life of the transaction, to adjust

² This definition is not included in the statute and is currently contemplated to be established through the financing order.

1 the amount of the SAC Charge owed by the Company's retail customers
2 (other than exempt retail access customers) to ensure that the amounts
3 collected are sufficient to pay all amounts owed with respect to the Bonds,
4 on a timely basis as scheduled. This process is referred to as the "true-up
5 adjustment" process. The process for implementing the true-up mechanism
6 is described in the testimony of Company witness Castle.

7 **Q. PLEASE FURTHER DESCRIBE THE SALE OF THE SECURITIZED**
8 **ASSET COST PROPERTY BY THE COMPANY TO THE SPE.**

9 A. Upon the issuance of the Bonds, the Company will enter into a purchase
10 and sale agreement with the SPE. As consideration for the payment by the
11 SPE of the purchase price for the interest in the securitized asset cost
12 property owned by the Company, the Company will sell, assign or otherwise
13 transfer its right, title and interest in, to and under its interest in the
14 securitized asset cost property to the SPE. The purchase and sale
15 agreement will provide that such sale, transfer, assignment and conveyance
16 is expressly stated to be an absolute transfer and true sale. Pursuant to Va.
17 Code § 56-249.8:E.3.a, if the documents governing the transaction
18 expressly state that the transaction is a sale or other absolute transfer, any
19 sale, assignment or transfer of securitized asset cost property under a
20 financing order shall be an absolute transfer and true sale of, and not a

1 pledge of or secured transaction relating to, the seller's right, title and
2 interest in, to and under the securitized asset cost property. As I mentioned
3 previously, this "true sale" treatment is an essential component of legally
4 isolating the securitized asset cost property collateral from the bankruptcy
5 risk of APCo and achieving AAA ratings for the Bonds.

6 **Q. PLEASE PROVIDE DETAILS REGARDING THE PROPOSED CAPITAL**
7 **STRUCTURE OF THE BONDS.**

8 A. The preliminary structure for the Company's approximately \$1.38 billion
9 securitized asset cost bond transaction is presented in APCo Exhibit No.
10 ____ (SM) Attachment 1. The SPE will issue approximately \$1.38 billion of
11 Bonds. On a preliminary indicative basis, 3 tranches of Bonds, which will
12 amortize over a sinking fund schedule, will be crafted to provide substantially
13 level debt service over the life of the Bonds. The preliminary structure for
14 this issuance is shown in Table 4.

TABLE 4
INDICATIVE STRUCTURE³

Indicative Structure

| Line No. | Tranche | Balance | Coupon | Price | Yield | Average Life |
|----------|---------|-----------------|--------|---------|-------|--------------|
| 1 | A-1 | \$450,000,000 | 4.64% | 100.000 | 4.64% | 4.9 yrs |
| 2 | A-2 | \$450,000,000 | 5.27% | 100.000 | 5.27% | 12.1 yrs |
| 3 | A-3 | \$475,500,000 | 5.59% | 100.000 | 5.59% | 17.5 yrs |
| 4 | Total | \$1,375,500,000 | | | | |

APCo Exhibit No. ____ (SM) Attachment 1 also shows indicative credit spreads to the benchmark and the associated interest coupon, scheduled final payment and rated legal maturity. I recommend that the initial debt service payment period be longer than six months after the closing of the transaction, with debt service payments thereafter occurring on a semi-annual basis. While the SAC Charge is irrevocably authorized upon issuance of the Bonds, the accrued charges will not be included on customer bills until the immediately following billing cycle month. Thus, considering the standard roll-out of customer bills over a 21-business days billing cycle, and given other lags in collections, it will take some time for the full expected cash flow from the SAC Charge to be realized. Therefore, the long initial payment period allows more time for the full amount of expected SAC Charge revenues to become available and provides for a true-up adjustment

³ US treasury benchmark rates and spreads assumed as of June 25, 2025. Structure is subject to change.

1 prior to the first debt service payment, to mitigate the transaction revenue
2 impact of any unexpected changes in the Company customer base or
3 revenues.

4 Please note that these terms are preliminary and estimated based on
5 current market conditions. The final terms and conditions of the Bonds will
6 not be known until they have been priced in the marketplace. Investor
7 demand at the time of pricing will determine market-clearing interest rates
8 and the final structure offered to investors. Therefore, this preliminary
9 structure and pricing information is illustrative and subject to change, and
10 the actual structure and pricing may differ, and may differ materially from
11 this preliminary structure.

12 The structure shown is designed to provide the lowest reasonably
13 attainable weighted average cost of funds given the targeted scheduled final
14 payment dates of the various tranches of the Bonds. The level of the SAC
15 Charge paid by the Company's retail customers is directly affected by
16 interest rates and the principal amortization structure of the Bonds. Given
17 the size of this transaction, we anticipate that there will be multiple tranches
18 (meaning different maturity dates for portions of the debt) of debt which will
19 allow the Company to take advantage of discrete pockets of investor
20 demand across the entire term of the transactions.

1 APCo Exhibit No. ____ (SM) Attachment 1 also shows the weighted
2 average life (or "WAL") of the indicative bonds. Weighted average life is a
3 measure of the average amount of time it takes to repay in full the principal
4 balance of a bond tranche. When pricing the Bonds, a credit spread
5 (negotiated with investors) is added to the underlying benchmark rate, and
6 together they make up the fixed coupon for the life of the transaction. Here,
7 our benchmark will be the U.S. Treasury curve. Note that the duration of the
8 U.S. Treasury benchmark that we will use as a benchmark on the day of
9 pricing is based on duration closest to the WAL of the Bonds, not closest to
10 the scheduled final payment date or legal final maturity date. Regularly
11 scheduled principal amortization throughout the life of the transaction, as
12 opposed to a single bullet maturity, results in a shorter WAL for the financing.
13 Investors have nearly universally seen and accepted semi-annual
14 amortization in these transactions. We have advised the Company that the
15 proposed transaction should have a relatively level annual debt service and
16 associated revenue requirement, such that as the Company's customer
17 population and customer consumption may increase, all other things being
18 equal, the SAC Charge may be adjusted downward over the life of the
19 transaction. Substantially level debt service also avoids significant volatility
20 in the customer charge year to year, as opposed to a bespoke amortization

1 schedule or a bullet payment at maturity. Rating agency stress tests also
2 tend to penalize transactions that use a different structuring approach,
3 particularly one that significantly back-loads principal debt service. APCo
4 Exhibit No. ____ (SM) Attachment 1 also outlines some of the key structuring
5 assumptions and displays the preliminary annual debt service schedules
6 and annual revenue requirements.

7 **Q. WHAT IS THE DIFFERENCE BETWEEN THE SCHEDULED FINAL**
8 **PAYMENT DATE AND LEGAL MATURITY DATE?**

9 A. I briefly addressed this topic above in the context of the basic discussion of
10 securitization and will address it more fully here. The scheduled final
11 payment date of the tranche or tranches of Bonds represents the date at
12 which final payment of principal is expected to be made, but no legal
13 obligation exists to retire the tranche in full by that date. The rated legal
14 maturity date is the date by which the bond principal must be paid or an
15 event of default will occur. The proposed preliminary structure for this
16 transaction utilizes a legal maturity date that is usually 24 months longer
17 than the scheduled final payment date for each bond tranche, known as a
18 "maturity cushion." The actual maturity cushion will be determined by the
19 final "AAA" stress scenarios required by the rating agencies during the rating
20 process for the underlying bonds and may be shorter or longer than 24

1 months. Therefore, it is important that the financing order provides flexibility
2 for the transaction to have the specific maturity cushions required to obtain
3 AAA equivalent ratings (or the highest possible ratings), which cannot be
4 determined in advance of the rating agency review process.

5 The difference between the scheduled final payment date and legal
6 maturity date provides additional credit protection by allowing shortfalls in
7 principal payments to be recovered over this additional period due to any
8 unforeseen circumstances. This gap between the two dates is a benefit to
9 the Company and contributes to the strong credit quality of the transaction,
10 helping lower the cost of funds and therefore benefitting ratepaying
11 customers.

12 Moreover, many investors in utility securitizations are familiar with this
13 concept, which is a feature in all utility securitization transactions and most
14 ABS transactions. The ratings on the Bonds are derived in part based on the
15 assumption that the outstanding principal amount of each tranche will be
16 paid in full by its legal maturity date, and investors would price the debt
17 assuming the underlying bonds make the final scheduled principal payment
18 in full at the scheduled final payment date, which is earlier than the legal
19 maturity date.

1 **Q. SHOULD THE TRANSACTION BE STRUCTURED AS A PUBLIC, SEC-**
2 **REGISTERED TRANSACTION?**

3 **A.** I recommend in this case pursuing an offering registered with the SEC,
4 generally referred to as a “public” offering, offered through a negotiated
5 process with a select group of underwriters. The Securities Act of 1933, as
6 amended, requires that every security offered or sold in the United States
7 either be registered with the SEC or qualify for an exemption from
8 registration (with such exempt securities generally referred to as a “private”
9 offering). If a transaction is registered with the SEC, there are no restrictions
10 on the type of investor who may purchase the securities. While private
11 offerings are restricted to certain types of sophisticated institutional investors
12 (e.g., 144A offerings), public offerings can be sold to anyone. Because there
13 are no restrictions on the sophistication of the investors able to purchase the
14 Bonds, the SEC requires public offerings to prepare a prospectus that
15 conforms to detailed disclosure requirements and is also reviewed by the
16 SEC prior to marketing. Offering documents for private transactions do not
17 have to be reviewed by the SEC prior to marketing. The public offering
18 process can therefore be more time consuming and may also have higher
19 transaction costs. Legal fees may be higher due to the SEC review process,
20 and unlike private offerings, the SEC requires issuers to pay a filing fee

1 based on the dollar amount of bonds being registered. However, in general,
2 public offerings are considered to be more liquid given the broader potential
3 investor universe and therefore may be more attractive to investors,
4 resulting in lower bond pricing. Public offerings are invariably conducted
5 through a negotiated sale of the securities to a selected group of
6 underwriters. I describe this negotiated sale process later in my testimony.
7 Therefore, similar to the vast majority of precedent utility securitization
8 transactions, we believe a public offering using a negotiated sale to
9 underwriters will likely lead to lower overall costs for customers.

10 **Q. WILL THE BONDS PAY FIXED OR FLOATING INTEREST RATES?**

11 A. Virtually all rate reduction bonds have been fixed-rate bonds. Fixed rates
12 facilitate evaluation of the likely costs and benefits in advance and the
13 maintenance of roughly equal securitized charges over time (subject to
14 variances in items such as actual load or collections history from forecast).
15 Maintaining predictable revenue requirements facilitates the ongoing
16 management of the customer charge adjustment (or “true-up”) process.
17 Although it is possible to issue floating-rate bonds if the floating interest rate
18 is then converted to a fixed rate through use of an interest rate swap or
19 hedge between an SPE and a highly-rated swap counterparty, in today’s
20 market, floating rate bonds, swaps, and hedges are expected to create

1 additional documentation costs and introduce additional risks and costs for
2 customers. For example, a swap incorporated as a part of the securitization
3 structure would require an additional counterparty, so there is a risk of a
4 ratings downgrade or a default by the counterparty providing the swap.
5 These additional costs do not support the goal of obtaining reasonable
6 securitized asset charges consistent with market conditions at the time the
7 securitized asset cost bonds are priced and the terms set forth in the
8 financing order. Further, it is difficult to find a comparatively-rated swap
9 counterparty (AAA) satisfying rating agency criteria necessary to secure the
10 desired AAA ratings on the Bonds.

11 **Q. DO YOU RECOMMEND MAKING THE BONDS CALLABLE?**

12 A. The vast majority of utility securitization bonds are not callable, or subject to
13 redemption before reaching the date of their stated maturity and absent
14 unforeseen events, it is likely that the Bonds will be noncallable.

15 **Q. WILL MAKING THE BONDS CALLABLE RESULT IN LOWER COST FOR**
16 **CUSTOMERS?**

17 A. Typically, to estimate how investors will view the addition of the call
18 provision, the underwriter would coordinate with its derivatives desk to price
19 out the call option, based on the total duration of the bonds and the preferred
20 par call date. This will be a cost greater than zero and can be very expensive

1 depending on the terms. Due to the uncertainty in the future interest rate
2 environment, it would be difficult to discern at the time of bond pricing
3 whether the cost of this optionality would be outweighed by a future lower-
4 priced coupon bond. The second concern would be whether the same
5 investor base would exist for a callable utility securitization versus the
6 traditional non-call structure, given the rarity of call features in these
7 transactions. Given the market standard is for such bonds to be non-callable
8 it is implied that prior issuers have determined it would not result in lower
9 costs for customers due to these marketing factors and uncertainties.

10 **Q. ARE THERE OTHER IMPORTANT CONSIDERATIONS REGARDING**
11 **THE PRELIMINARY STRUCTURE OF THE BONDS?**

12 A. Yes. I reiterate that it will be beneficial for the Bonds to be structured to have
13 substantially level annual debt service. This is important because it should
14 facilitate stability in the aggregate SAC Charges over the life of the Bonds.

15 **Q. PLEASE DESCRIBE THE MECHANICS OF HOW THE SECURITIES ARE**
16 **PRICED.**

17 A. The starting point for how a utility securitization is priced is the
18 corresponding benchmark rate. In the preliminary structure included as
19 APCo Exhibit No. ____ (SM) Attachment 1, U.S. Treasury benchmarks are
20 referenced in the calculation of the yield. These benchmark rates are

1 matched with the weighted average life of each tranche. As discussed
2 above, the weighted average life is a measure of the average amount of time
3 it is expected to take to repay the principal balance of a tranche in full. The
4 U.S. Treasury benchmark reflects the "risk-free" yield investors generally
5 associate with securities issued by the U.S. Treasury. The next component
6 is the credit spread, which is generally the amount of yield above the given
7 benchmark that is required by the marketplace to invest in the given bond
8 tranche. This credit spread, the yield above the benchmark rate, is an
9 indication of the market's view at the time of pricing of the incremental credit
10 risk associated with each bond tranche. To state the obvious, issuers would
11 like this credit spread to be as small, or tight, as possible to the underlying
12 benchmark (thereby lowering the total coupon), and investors would like it
13 to be higher, or wider, versus the underlying benchmark, all else being
14 equal, to increase their return. The pricing credit spread is ultimately
15 determined by market-clearing rates at the conclusion of the marketing
16 process. We anticipate marketing these transactions at the same time and
17 currently anticipate with the same structures illustrating the identical nature
18 of the issuances and their underlying collateral and credit quality. We will
19 continue to assess how to best position the issuances as we approach
20 marketing the transaction.

1 **B. SAC Charge Collection**

2 **Q. PLEASE DESCRIBE THE ONGOING BILLING, COLLECTING, AND**
3 **REMITTING OF THE SAC CHARGE OVER THE LIFE OF THE**
4 **TRANSACTION.**

5 A. The Company, as servicer, will be responsible for calculating, billing and
6 collecting the SAC Charge from its customers. The procedures for remitting
7 the SAC Charge to the Trustee will be established through the transaction
8 documents, including the servicing agreement between the Company and
9 the SPE. The SAC Charge collections will be remitted by the Company, as
10 servicer, to the Trustee each business day, expected daily (based on
11 estimated amounts collected), with cash held no more than two business
12 days prior to remittance. The securities intermediary designated by the
13 Trustee will then hold the amounts remitted to it by the Company until the
14 next payment date on the Bonds. These payment dates will generally occur
15 twice a year, as is customary in utility securitizations.

16 **Q. HOW WILL THE CHARGE BE CALCULATED?**

17 A. Witness Castle goes into more detail, but the SAC Charge will be calculated
18 to ensure the SAC Charge collections are sufficient to pay principal of, and
19 interest on the Bonds, on a timely basis, plus other financing costs.

1 **Q. ARE THERE “OTHER AMOUNTS” BEYOND DEBT SERVICE REQUIRED**
2 **TO BE COLLECTED IN CONNECTION WITH THE BONDS?**

3 **A.** There will be other amounts in addition to the bond principal and interest that
4 will be payable on an ongoing basis over the life of the transaction. These
5 costs, which are required financing costs, include, but are not limited to, any
6 amounts required to be paid pursuant to ancillary agreements, servicing fees
7 and expenses, Trustee fees and expenses, legal fees and expenses,
8 administrative fees, rating-agency surveillance fees, replenishment of the
9 capital subaccount or another reserve account established under an
10 indenture, a return on the initial capital contributed to the SPE equal to the
11 Company’s pre-tax weighted average cost of capital certain other costs
12 incurred to obtain modifications of or amendments to any indenture,
13 financing agreement, security agreement or similar agreement or instrument
14 relating to any existing secured or unsecured obligation of the Company in
15 connection with the issuance of the Bonds and other related costs
16 authorized by the Commission in the financing order generally imposed on
17 the Company related to the issuance of the Bonds or the other transactions
18 contemplated by the Financing Order. Generally, these amounts are SPE
19 expenses that are required to issue and keep the transaction working as
20 designed, without reliance on the Company or any other source of funds. It

1 is essential to the SPE's status as bankruptcy-remote entity for the
2 transaction structure to provide for the full payment of ongoing financing
3 costs. These anticipated fees and expenses are estimated in the testimony
4 of Company witness Castle and included as APCo Exhibit No. ____ (WKC)
5 Attachment 1. Upfront issuance costs also are reflected in the total issuance
6 amount and are discussed in Company witness Castle's testimony and
7 outlined in APCo Exhibit No. ____ (WKC) Attachment 1.

8 **Q. IN YOUR EXPERIENCE, ARE THE COSTS ESTIMATED BY THE**
9 **COMPANY WITHIN THE RANGE OF COSTS YOU HAVE PREVIOUSLY**
10 **SEEN FOR SIMILAR EXPENSES?**

11 A. Yes. My team at Goldman and I have reviewed the preliminary expense
12 estimates provided by Company witness Castle, as well as the supporting
13 examples provided from previous transactions. While the Company's
14 proposed securitization is not expected to occur until late 2025 or early 2026,
15 and costs may change, these estimated costs are within the established
16 ranges found in other utility securitization transactions.

17 **Q. PLEASE DESCRIBE THE CONTENTS AND PURPOSE OF THE**
18 **SERVICING AGREEMENT.**

19 A. The Servicing Agreement is an agreement among the Company (in its
20 capacity as the servicer of the Bonds), and the SPE. The Servicing

1 Agreement sets forth the responsibilities and obligations of the servicer,
2 including, among other things, imposing, charging and collecting the SAC
3 Charge, responding to customer inquiries, terminating electric service, filing
4 for true-up adjustments, remitting collections to the Collection Account and
5 directing the release of funds in the Collection Account to the Trustee for
6 distribution to bondholders. The Servicing Agreement will prohibit the
7 Company from resigning as servicer unless (i) it is unlawful for such initial
8 servicer to continue in such a capacity, or (ii) the Commission consents and
9 the rating agencies confirm the resignation would not impact the ratings on
10 the Bonds. A servicer resignation would not be effective until a replacement
11 servicer has assumed its obligations to continue servicing the Bonds without
12 interruption. If a servicer defaults on its obligation as servicer, then the
13 Trustee may, upon the instruction of a majority of the holders of the Bonds,
14 appoint a successor servicer acceptable to the Trustee. Any merger or
15 consolidation of a servicer with another entity would require the merged
16 entity to assume such servicer's responsibility under the servicing
17 agreement. The terms of the servicing agreement are critical to the rating
18 agency analysis of the Bonds and the ability to achieve credit ratings in the
19 highest categories. As compensation for its role as initial servicer, the
20 servicer is entitled to earn a market rate servicing fee payable out of SAC

Charge collections. Table 5 provides a snapshot of annual servicing fees for the initial servicer on various recent utility securitizations as a percentage of the original principal balance of notes outstanding.

TABLE 5
RECENT UTILITY SECURITIZATION ANNUAL SERVICING FEE PERCENTAGES

| Line No. | Deal | Annual Servicing Fee (% of Initial Principal Balance) |
|----------|-----------------|--|
| 1 | AEP 2025 (KY) | 0.05% |
| 2 | CNL 2025-A | 0.05% |
| 3 | AGR 2025-A | 0.05% |
| 4 | AEP 2024-A (LA) | 0.10% |
| 5 | AEE 2024-A | 0.05% |

It is important to the rating agencies and the bankruptcy-remote analysis of the transaction that the Company receives an arm's-length fee as servicer of the securitized asset cost property, and for its services as administrator of the SPE. Utility securitizations to date have also required an increase in the servicing fee in the unlikely event the Company is no longer able to perform its servicing role, and a replacement servicer must be brought on board. Rating agencies expect that the Company will be the servicer but assumes that a replacement servicer may require additional compensation to perform these services, without access to the Company's existing infrastructure and customer relationships.

1 **Q. HOW WOULD THE SAC CHARGE BE BILLED AND COLLECTED IN THE**
2 **CASE WHERE THE COMPANY IS NO LONGER THE UTILITY IN THE**
3 **SERVICE AREA?**

4 A. The financing order, upon the issuance of the Bonds, creates a binding
5 obligation for the Company, its successors or assignees to collect the SAC
6 Charge and allows that obligation to be performed by a replacement servicer
7 appointed by the Trustee, if the servicer does not so perform. Thus, the
8 binding obligation to collect and account for SAC Charge will survive any
9 adverse event to any servicer. This obligation is binding upon any other
10 entity that provides service in the service territory or any other entity
11 responsible for calculating, billing and collecting and remitting the SAC
12 Charge on the Company's behalf.

13 **Q. WHAT IS MEANT BY A THIRD-PARTY ENERGY SERVICER?**

14 A. While it is my understanding that Virginia law does not currently authorize
15 third-party energy servicers to provide public utility services, it is important
16 that the financing order ensure that such third-parties – in the event there is
17 any future change in utility regulation – bill and collect and remit the SAC
18 Charge in a manner that will not cause any of the then-current credit ratings
19 of the Bonds to be suspended, withdrawn, or downgraded.

1 While the rating agency requirements may change from time to time,
2 it is expected that the rating agencies' requirements, in general, will consist
3 of the following:

- 4 • Any third-party energy servicer would be required to provide the
5 Company, acting as servicer, (or any successor servicer) with total
6 monthly kilowatt-hour usage information in a timely manner for the
7 servicer to fulfill its debt service obligations, as such information is the
8 basis of such remittance.
- 9 • The utility, or any successor servicer, would be entitled, within seven
10 days after a default by the third-party energy servicer in remitting any
11 SAC Charge billed, to assume responsibility for billing all charges for
12 services provided by the Company or any successor servicers, including
13 the SAC Charge, or to switch responsibility to a third-party, which must
14 meet the criteria therein described.
- 15 • If and so long as a third-party energy servicer failed to maintain at least
16 a triple-B long-term unsecured credit rating from Moody's Investors
17 Service, S&P Global Ratings or Fitch Ratings, such third-party energy
18 servicer would be required to maintain, with the servicer or as directed
19 by the servicer, a cash deposit or comparable security equal to at least
20 one month's maximum estimated collections of the SAC Charge, in a

1 form and manner as agreed upon by the servicer, or any successor
2 servicer, and the third-party energy servicer. In the event of a default in
3 the remittance of the SAC Charge by a third-party energy servicer, such
4 amount would be included in the true-up adjustments.

- 5 • The third-party energy servicer would be required to agree to remit the
6 full amount of the SAC Charge it bills to retail customers, regardless of
7 whether payments are received from such retail customers, within 15
8 days of its or the Company's, or any successor servicer's, bill for such
9 charges.
- 10 • The foregoing requirements may be modified in accordance with the
11 terms of the securitized asset cost bond financing documents, subject to
12 approval by the Commission, and confirmation (or deemed confirmation)
13 by the applicable rating agencies that such change will not result in a
14 suspension, reduction, or withdrawal of the then-current credit ratings for
15 the Bonds.

16 **C. Accounts**

17 **Q. IN ADDITION TO THE SECURITIZED PROPERTY, ARE THERE ANY**
18 **OTHER COMPONENTS OF THE COLLATERAL FOR THIS**
19 **TRANSACTION?**

1 A. Yes. The collateral for the transaction includes other components in addition
2 to the securitized property. However, the property right is the principal asset
3 pledged as collateral. Pursuant to the Indenture, the other collateral includes
4 a collection account, which will be established by the SPE as a trust account
5 to be held by the Trustee. Each subaccount is designed to facilitate the
6 payment of principal, interest, and other costs associated with the Bonds.

7 The collection account will have the following subaccounts:

- 8 • a general subaccount;
- 9 • a capital subaccount; and
- 10 • an excess funds subaccount.

11 The SPE's interest in the collection account will be pledged as collateral for
12 the benefit of the bondholders. The collateral also consists of the SPE's
13 rights under certain agreements it enters into as parts of the transaction
14 including the purchase and sale agreement and the servicing agreement.

15 **Q. PLEASE DESCRIBE THE GENERAL SUBACCOUNT.**

16 A. The general subaccount is the subaccount in which the Trustee deposits the
17 securitized asset cost charges it receives from the Collection Account.
18 Monies in the general subaccount will be applied by the Trustee on a
19 periodic basis to make payments according to the waterfall in the indenture,
20 which generally includes the payment of SPE expenses required to maintain

1 the operations of the transaction, then interest on the Bonds, and then
2 principal on the Bonds.

3 **Q. PLEASE DESCRIBE THE EXCESS FUNDS SUBACCOUNT.**

4 A. The excess funds subaccount is where any monies on deposit in the general
5 subaccount that are not required to meet the scheduled interest and
6 principal obligations of the Bonds will be deposited. The initial balance is
7 zero, and the target ongoing balance is also zero. To the extent there are
8 funds on deposit in this subaccount, those amounts will be considered in the
9 next available true-up mechanism adjustment and the subaccount value will
10 again be generally targeted to be zero. Stated differently, to the extent SAC
11 Charge collections are higher than expected in any given true-up calculation
12 period, those amounts will not pay down the principal balance of the Bonds
13 beyond the scheduled principal payment for that period. Rather, the
14 amounts on deposit in the general subaccount above and beyond the
15 scheduled obligations will be moved to the excess funds subaccount. Those
16 amounts will then reduce the amount of SAC Charge collections needed in
17 the subsequent true-up calculation period. This is how the debt service
18 coverage is targeted to remain at 100% of debt service and ongoing
19 financing costs, as discussed above.

20 **Q. PLEASE DESCRIBE THE CAPITAL SUBACCOUNT.**

1 A. The capital subaccount represents the equity capital of the SPE and is
2 funded by an amount contributed by the Company at issuance that is at least
3 equal to 0.50 percent of the initial principal amount of the Company's
4 securitized asset cost bond transaction. To the extent there is a shortfall in
5 collections, the SPE may draw upon the amount in its capital subaccount to
6 pay debt service or other ongoing financing costs. If the capital subaccount
7 is drawn upon, it is replenished from the SAC Charge through the true-up
8 mechanism and any available excess SAC Charge collections.

9 **Q. PLEASE DESCRIBE THE TREATMENT OF ANY FUNDS REMAINING IN**
10 **THE VARIOUS SUBACCOUNTS AT THE FINAL MATURITY OF THE**
11 **TRANSACTION.**

12 A. Upon the full repayment of the Bonds and the discharge of the ongoing
13 financing costs, all amounts in the Collection Account and in each
14 subaccount, in each case including investment earnings, shall be released
15 by the Trustee to the SPE for distribution to the Company for distribution
16 back to its customers. The Company will notify the Commission within 30
17 days after the date that these funds are eligible to be released of the amount
18 of such funds available for crediting to the benefit of customers. The
19 amounts in the capital subaccount shall be returned to the Company.

20 ***D. Key True-up Mechanism Considerations***

1 **Q. PLEASE DISCUSS KEY ASPECTS OF THE TRUE-UP MECHANISM.**

2 A. One of the fundamental utility securitization features that enables “AAA”
3 ratings is the statutorily mandated periodic true-up mechanism. The true-up
4 mechanism involves the adjustment of the customer charges on a periodic
5 basis, to ensure that the scheduled securitization debt service and ongoing
6 financing costs are paid on a timely basis. True-up adjustments are also
7 designed to minimize any over-collections and target the relatively low 100%
8 (or 1.0x) debt service coverage. True-up adjustments are to be implemented
9 by the servicers, and by the terms of the Securitization Statute (Va. Code §
10 56-249.8:B.2.d), any reviews by the Commission focus only on potential
11 mathematical or clerical errors present in the true-up adjustment
12 submission. Consistent with other recent utility securitization transactions, I
13 recommend that true-up adjustments take place at least annually to correct
14 any overcollections or undercollections and to ensure the billing of amounts
15 necessary to generate collections of the SAC Charge sufficient to timely
16 provide payment of all amounts due on the Bonds and all other ongoing
17 financing costs. In addition, I recommend the financing order requires that
18 SAC Charge be adjusted semi-annually (and, beginning twelve months prior
19 to the last scheduled final payment date for the latest maturing tranche of
20 each series, quarterly) if a servicer forecasts a shortfall in SAC Charge

1 collections to ensure the amount of SAC Charges collected is sufficient to
2 make all scheduled payments of principal of and interest on the Bonds and
3 ongoing financing costs on a timely basis, including to replenish draws on
4 the capital subaccount. The financing order should also permit true-up
5 adjustments may also be made by the servicers more frequently at any time,
6 without limits as to frequency, in order to ensure the expected recovery of
7 amounts sufficient to timely provide all payments of debt service and other
8 required amounts and charges in connection with the Bonds. The servicer
9 should be permitted to use a non-standard class allocation adjustment in
10 cases of a significant and sustained change in the forecasted load of any
11 customer class. For purposes of this class allocation adjustment, I
12 recommend that a significant change be deemed to have occurred if the
13 forecasted load of any customer class for the upcoming remittance period is
14 projected to increase or decrease by 10% or more compared to the original
15 projected load for that class (as set forth in the financing order) or the most
16 recent application of the true-up mechanism or this class allocation
17 adjustment.

18 I further recommend that the true-up adjustment calculations
19 occurring in each period take into account actual collections received during
20 months since the prior true-up adjustment, as well as scheduled debt service

1 and financing costs projected to be due over the two upcoming debt service
2 payment periods (the periods ending on the first and second payment dates
3 following the true-up adjustment date). The true-up adjustment calculation
4 methodology will take into account updated energy usage and revenue
5 forecasts, any changes in the Commission-approved customer rate
6 allocations, as well as updated customer payment aging, delinquency and
7 uncollectibles data.

8 I recommend that the initial bond payment period be longer than six
9 months from the closing date. The Company could select true-up dates so
10 there will be a true-up adjustment effective prior to the first bond payment
11 date. I recommend that the true-up adjustment become effective in the
12 approximate middle of the bond payment periods, such that generally there
13 are two or three months of the SAC Charge based upon the adjusted rates,
14 collected prior to the upcoming bond payment date. For example, if bond
15 payment dates are January 1 and July 1, the mandatory semi-annual true-
16 up adjustment dates could be set for April 1 and October 1. However, such
17 payment dates and true-up dates are at the discretion of the Company, and
18 we will assist in ensuring such dates work for the purposes of the rating
19 agency analysis and stresses. Setting true-up adjustment dates on such a
20 schedule provides time for charges based upon adjusted rates to be

1 collected prior to upcoming bond payments and is designed to minimize and
2 stabilize charges on an ongoing basis throughout the life of the transaction.

3 Witness Castle provides more detail concerning the true-up
4 mechanism in his testimony.

5 **IV. DISCUSSION OF THE EXECUTION PROCESS**

6 **A. *Rating Agency Process***

7 **Q. PLEASE DESCRIBE THE RATING AGENCY PROCESS.**

8 A. An important element of preparing for the marketing and pricing of the Bonds
9 is obtaining the highest achievable ratings from the rating agencies. The
10 Company and the structuring advisors and lead underwriter for the Company
11 will prepare written presentations and may meet with rating agency
12 personnel to discuss the credit framework and credit strengths of the Bonds,
13 and the structural features of the Bonds with each hired rating agency. It is
14 important to note that rating agencies are completely independent
15 institutions, and each rating agency has its own method of reviewing a utility
16 securitization and will request certain data and information that will facilitate
17 such a review process. Rating agencies may update or amend their rating
18 criteria at any time. The Company's structuring advisors and lead
19 underwriter will work with the Company to draft presentations and materials
20 that contain the required data and information. Additionally, the rating

1 agencies may require a diligence review of the servicer's billing and
2 collecting processes. Whether this review is done on-site or via the
3 telephone depends on several factors and is ultimately up to each rating
4 agency. Each rating agency will follow-up with additional questions.

5 The ratings process also entails a review of the cash flows of the
6 proposed structure. As part of this phase, each rating agency will ask for
7 various cash flow stress scenarios based on its requirements and the details
8 of the particular transaction to ensure that the Bonds will be repaid under
9 extremely stressful cash flow projections. These rating agency cash flow
10 stress scenarios may include assumptions that zero out revenues each year
11 during the peak consumption months, that assume that all industrial
12 customers leave the service territory, assume that the widest historical
13 variance between actual consumption and forecasted consumption is
14 multiplied five or more times over the life of the transaction, as well as other
15 stress assumptions regarding write-offs and delinquencies.

16 Important rating elements include:

- 17 • Legal and regulatory framework;
- 18 • Political and regulatory environment;
- 19 • Transaction structure;
- 20 • Servicing review and capabilities;

- 1 • Service areas analysis;
- 2 • Cash flow stress analysis; and
- 3 • Maximum size of the SAC Charge during projected stress scenarios as
- 4 a percentage of the average residential customer bill.

5 ***B. Marketing Process***

6 **Q. PLEASE DESCRIBE THE BOND MARKETING PROCESS.**

7 A. The marketing process entails several different phases, each uniquely
8 tailored to the asset class, market conditions, and the specifics of the
9 contemplated transaction. The underwriters will work with and make
10 recommendations to the Company throughout the process to target the
11 widest range of investors in with the goal of achieving lowest interest on
12 each tranche given the market conditions at the time of pricing. The process
13 conducted will be consistent with the proposed issuance advice letter
14 procedure described in paragraph C below, as well as with SEC rules and
15 regulations regarding publicly registered securities offerings, including an
16 investor suitability analysis. Once the Bonds have priced, the Company, with
17 its underwriters and legal team, will work toward finalizing the transaction
18 documents and close the transaction, typically approximately five business
19 days after pricing.

20 ***C. Key Issuance Advice Letter Considerations***

1 **Q. PLEASE EXPLAIN THE PURPOSE OF THE ISSUANCE ADVICE**
2 **LETTER.**

3 A. The Company proposes to provide an IAL, prepared by the Company and
4 delivered to the Commission prior to the issuance of the Bonds describing
5 the final structure and terms of the Bond issuance, including an updated
6 accounting of the upfront financing costs and ongoing financing costs. The
7 IAL shall include a certification of APCo that the structuring, pricing and
8 financing costs of the Bonds achieved the statutory cost objectives. The
9 Company proposes to provide a draft IAL no later than two weeks prior to
10 the expected date of the commencement of marketing of the Bonds and the
11 final IAL within one business day after pricing. The Company further
12 proposes that, unless, prior to noon on the third business day after the
13 Commission receives the final IAL, the Commission issues a disapproval
14 letter stopping the Bond issuance, the transaction shall be final, irrevocable
15 and incontestable and the Company may proceed with the issuance of the
16 Bonds.

17 **Q. PLEASE DISCUSS KEY ASPECTS OF THE ISSUANCE ADVICE LETTER**
18 **PROCEDURE.**

19 A. The IAL shall be in the form approved in a financing order and report the
20 initial SAC Charge, indicate the final structure, including terms, of the Bond

1 issuance and best estimates of total annual ongoing financing costs for the
2 Bonds.

3 **V. DISCUSSION OF THE FINANCING ORDER**

4 **Q. ARE THE TERMS OF A FINANCING ORDER CRITICAL TO ACHIEVING**
5 **A SUCCESSFUL SECURITIZED ASSET COST BOND TRANSACTION?**

6 A. Yes. As this Commission is generally familiar based on its prior experience
7 with securitization, the financing order, when taken together with applicable
8 provisions of the Securitization Statute, establishes in strong and definitive
9 terms the legal right of bond investors to receive, in the form of securitized
10 asset cost charges, those amounts necessary to pay the interest and
11 principal on the Bonds and other ongoing financing costs in full and on a
12 timely basis. A proposed draft of the financing order is provided as Exhibit A
13 to the Petition.

14 As mentioned earlier, the financing order specifies the mechanisms
15 and structures for payments of bond interest, principal, and ongoing
16 financing costs in a manner that minimizes the amount of additional credit
17 enhancements required by the rating agencies in order to achieve the
18 highest possible ratings for the Bonds. The highest possible ratings will allow
19 the financing to achieve the desired results of producing cost savings to
20 customers and to mitigate rate impacts on customers, as compared to

1 traditional financing mechanisms or traditional cost-recovery methods
2 available to the Company. In addition, the financing order, when taken
3 together with applicable provisions of the Securitization Statute, will enable
4 the Company to structure the financing in a manner reasonably consistent
5 with investor preferences and rating agency considerations at the time of
6 pricing, which is also necessary for the financing to achieve the desired
7 results.

8 **Q. WHAT ARE THE KEY ELEMENTS OF THE FINANCING ORDER THAT**
9 **ARE ESSENTIAL TO ACHIEVING THE DESIRED RESULT FOR THE**
10 **TRANSACTION?**

11 A. The Securitization Statute sets out several key elements for a financing
12 order. Once the securitized asset cost property is created, one of the most
13 important elements is insulating the transaction from any potential
14 bankruptcy risk of APCo, which is accomplished via a legal “true sale” of the
15 Company’s interest in the securitized asset cost property to the SPE. The
16 structure utilized with this transaction, along with other securitizations, relies
17 on features that allow the rating agencies and investors to conclude that the
18 SPE is highly unlikely to become the subject of a bankruptcy proceeding in
19 the unlikely event of a bankruptcy of the Company or AEP. Under the
20 Federal bankruptcy code, payments on the debt obligations of an issuer in

1 a bankruptcy proceeding become subject to an automatic stay – i.e., the
2 payments are suspended until the courts decide which creditors of the
3 issuers are to be paid, when they will be paid, and whether they are to be
4 paid in whole or in part. Unless the risk of an automatic stay in the unlikely
5 event of a bankruptcy of the Company or AEP is essentially removed from
6 the rating agencies' credit analysis, the financing cannot achieve the highest
7 possible ratings, since the Company's secured debt obligations are rated
8 below AAA.

9 In addition, the creation of a bankruptcy-remote SPE, which is legally
10 distinct from the utility, is designed to limit the ability of the SPE to be
11 included with the Company in the unlikely event of a Company or AEP
12 bankruptcy. Therefore, even if the Company or AEP were to declare
13 bankruptcy, the SPE would not become the subject of the Company's
14 bankruptcy proceeding, and the SPE's debt service payments to investors
15 would not be subject to the Company's automatic stay. The transaction, as
16 structured and reflected in the financing order, is intended to achieve this
17 important element. This legal structure is supported by true sale and non-
18 consolidation legal opinions from experienced legal counsel.

1 **Q. ARE THERE ANY OTHER COMPONENTS OF THE FINANCING ORDER**
2 **THAT ARE ESSENTIAL TO ESTABLISHING THE LEGAL FOUNDATION**
3 **FOR THE TRANSACTION?**

4 A. There are several provisions in the financing order that ensure that the SPE
5 will be deemed to be bankruptcy-remote in addition to the elements
6 mentioned above, including that the SPE will have at least one independent
7 manager whose approval will be required for certain organizational changes
8 or major actions of the SPE, such as a voluntarily filing for bankruptcy by the
9 SPE. The financing order will also enable the transfer of the securitized
10 asset cost property from the Company to the SPE to be a "true sale." As
11 discussed above, a true sale is a sale that a bankruptcy court should not
12 overturn in the case of any Company bankruptcy. The financing order will
13 allow the SPE to issue the Bonds, pledging the securitized asset cost
14 property as security for payment on the Bonds.

15 **Q. DOES THE FINANCING ORDER PROVIDE FOR ANY CREDIT**
16 **ENHANCEMENT TO THE TRANSACTION?**

17 A. Yes, in a number of forms. The most fundamental component of credit
18 enhancement to investors is the true-up mechanism, which is a cornerstone
19 of utility securitizations. The financing order, together with the Securitization
20 Statute, ensures that the SAC Charge collections arising from the

1 securitized asset cost property are expected to be sufficient to pay all
2 amounts owed on the Bonds on a timely basis and in full, even in the face
3 of dramatic reductions in electricity usage by the Company's retail
4 customers or dramatic increases of delinquencies and losses on payments
5 from the Company's customers.

6 It is critical for rating agency purposes that, insofar as Commission
7 action is required, true-up adjustments are automatic (for example, the true-
8 up adjustment is not subject to hearing, protest or appeal) and are
9 implemented on an immediate basis subject only to mathematical and
10 clerical error review. The review by the Commission of each true-up
11 adjustment is limited in this way because the Commission approves the true-
12 up mechanism in the financing order. Public utility commissions are typically
13 given between 15 and 30 days to review the requested true-up adjustments
14 for mathematical or clerical error, and based on the Commission's prior
15 experience, the Company proposes a 30-day review; any required true-up
16 adjustments, if not implemented prior to the end of such review period, are
17 included in the next following true-up adjustment. True-up adjustments will
18 consider ongoing financing costs as well as anticipated debt service
19 requirements, updated electricity usage and customer count forecasts, the
20 then-current Commission-approved customer charge allocation

1 methodologies, in addition to forecasted projections of customer
2 uncollectibles and delinquencies. The true-up mechanism shall remain in
3 effect until the Bonds and all associated financing costs have been fully paid
4 and any under-collection is recovered from customers and any over-
5 collection is returned to customers.

6 The capital subaccount at the SPE will be funded with an amount
7 equal to at least 0.50 percent of the initial principal amount of the Bonds, as
8 the case may be, and will also serve as credit enhancement of the Bonds
9 issued by the SPE. Also, it is important that the financing order provide for
10 flexibility to include other forms of credit enhancement and other
11 mechanisms (e.g., letters of credit, additional amounts of
12 overcollateralization or reserve accounts, or surety bonds) to improve the
13 marketability of the Bonds. None are anticipated but it is important to have
14 such built-in flexibility to achieve highest ratings and customer cost goals.

15 **Q. PLEASE EXPAND ON YOUR USE OF THE TERM “NONBYPASSABLE”**
16 **IN YOUR PREVIOUS ANSWER.**

17 **A.** The Securitization Statute provides that the payment of securitized asset
18 cost charges as authorized by the Commission shall be non-bypassable and
19 paid by all Virginia retail customer of the Company, irrespective of the
20 generation supplier of such customer, except for an exempt retail access

1 customer. This is another important element of the financing order, both for
2 the rating agency process and for investor considerations.

3 **Q. PLEASE DISCUSS THE IRREVOCABLE NATURE OF THE FINANCING**
4 **ORDER.**

5 A. Subsequent to the transfer to the securitized asset cost property to an
6 assignee or the issuance of the Bonds, whichever is earlier, the financing
7 order will become irrevocable and, except for changes made pursuant to the
8 true-up process, the Commission will not be permitted to amend, modify, or
9 terminate the financing order by any subsequent action or reduce, impair,
10 postpone, terminate or otherwise adjust securitized asset cost charges
11 approved in the financing order.

12 Equally important, pursuant to Va. Code §56-249.8:K, the State of
13 Virginia pledges and agree with bondholders, assignees, and financing
14 parties that the State will not take any action listed in Va. Code §56-249.8:K
15 as to any outstanding bonds, including the Bonds, the SAC Charge, or
16 securitized asset cost property.

17 The prohibited actions set forth in Va. Code §56-249.8:K.1 are as
18 follows: (a) alter the provisions of Va. Code §56-249.8 that authorize the
19 Commission to create an irrevocable contract right or chose in action by the
20 issuance of a financing order, to create securitized asset cost property, and

1 to make the SAC Charges imposed by a financing order irrevocable, binding
2 or non-bypassable charges; (b) take or permit any action that impairs or
3 would impair the value of the securitized asset cost property or the security
4 for the Bonds or revise the securitized asset costs for which recovery is
5 authorized; (c) in any way impair the rights and remedies of the bondholders,
6 assignees, and other financing parties; and (d) except for changes made
7 pursuant to the true-up mechanism authorized under the Securitization
8 Statute, reduce, alter, or impair the SAC Charges that are to be imposed,
9 billed, charged, collected, and remitted for the benefit of the bondholders,
10 assignees and any other financing parties, until any and all principal,
11 interest, premium, financing costs and other fees, expenses, or charges
12 incurred, and any contracts to be performed in connection with the Bonds
13 are paid and performed in full.

14 Investors generally perceive that one of the greatest risks to them is
15 that there is a change in law that affects the securitized asset cost property,
16 thereby adversely affecting their rights under the Securitization Statute or
17 the financing order. Pursuant to the Securitization Statute, the bondholders,
18 as financing parties to the Bonds, will have the full rights and benefits
19 pursuant to Va. Code §56-249.8:K. The Commission's affirmation in the
20 financing order will enhance investor confidence that the risk of an adverse

1 change in law or regulation is remote and will permit counsel to deliver
2 important legal opinions that such adverse changes would not be legally
3 valid.

4 **Q. ARE THERE ANY OTHER KEY ELEMENTS OF THE FINANCING ORDER**
5 **UPON WHICH YOU WISH TO ELABORATE?**

6 A. Yes. As there will be some time between the issuance of the financing order
7 and when the Bonds are brought to market, the Company seek the flexibility
8 to establish the final terms and conditions of the Bonds to best suit the
9 market conditions at the time they are being sold to investors. This flexibility
10 will allow the Company to structure and issue the Bonds to meet the
11 requirements of the Securitization Statute.

12 **VI. CONCLUSION**

13 **Q. PLEASE SUMMARIZE YOUR TESTIMONY.**

14 A. I believe the financing order, as proposed, will enable the Company to
15 structure a transaction that can achieve the highest possible ratings, and
16 meet investor preferences to produce cost savings to customers and to
17 mitigate rate impacts on customers, as compared to traditional financing
18 mechanisms or traditional cost-recovery methods available to the Company.

19 **Q. DOES THIS COMPLETE YOUR DIRECT TESTIMONY?**

20 A. Yes, it does. Thank you.

Illustrative Amortization Schedule

| Class | A-1 | A-2 | A-3 |
|----------------|---------------|---------------|---------------|
| WAL | 4.86 | 12.09 | 17.47 |
| Balance (\$mm) | \$450,000,000 | \$450,000,000 | \$475,500,000 |
| Coupon | 4.64% | 5.27% | 5.59% |

| Year | A-1 | | | A-2 | | | A-3 | | | Total P&C |
|------|-------------|------------|------------|-------------|------------|------------|-------------|------------|------------|------------|
| | Balance | Principal | Coupon | Balance | Principal | Coupon | Balance | Principal | Coupon | |
| 0.0 | 450,000,000 | - | - | 450,000,000 | - | - | 475,500,000 | - | - | - |
| 0.5 | 427,224,884 | 22,775,116 | 11,066,063 | 450,000,000 | - | 12,586,900 | 475,500,000 | - | 14,102,405 | 60,530,484 |
| 1.0 | 405,233,611 | 21,991,273 | 9,900,937 | 450,000,000 | - | 11,862,000 | 475,500,000 | - | 13,290,225 | 57,044,435 |
| 1.5 | 382,732,690 | 22,500,921 | 9,391,289 | 450,000,000 | - | 11,862,000 | 475,500,000 | - | 13,290,225 | 57,044,435 |
| 2.0 | 359,710,310 | 23,022,380 | 8,869,830 | 450,000,000 | - | 11,862,000 | 475,500,000 | - | 13,290,225 | 57,044,435 |
| 2.5 | 336,154,386 | 23,555,924 | 8,336,286 | 450,000,000 | - | 11,862,000 | 475,500,000 | - | 13,290,225 | 57,044,435 |
| 3.0 | 312,052,554 | 24,101,832 | 7,790,378 | 450,000,000 | - | 11,862,000 | 475,500,000 | - | 13,290,225 | 57,044,435 |
| 3.5 | 287,392,162 | 24,660,392 | 7,231,818 | 450,000,000 | - | 11,862,000 | 475,500,000 | - | 13,290,225 | 57,044,435 |
| 4.0 | 262,160,265 | 25,231,897 | 6,660,313 | 450,000,000 | - | 11,862,000 | 475,500,000 | - | 13,290,225 | 57,044,435 |
| 4.5 | 236,343,619 | 25,816,646 | 6,075,564 | 450,000,000 | - | 11,862,000 | 475,500,000 | - | 13,290,225 | 57,044,435 |
| 5.0 | 209,928,672 | 26,414,947 | 5,477,263 | 450,000,000 | - | 11,862,000 | 475,500,000 | - | 13,290,225 | 57,044,435 |
| 5.5 | 182,901,559 | 27,027,113 | 4,865,097 | 450,000,000 | - | 11,862,000 | 475,500,000 | - | 13,290,225 | 57,044,435 |
| 6.0 | 155,248,093 | 27,653,466 | 4,238,744 | 450,000,000 | - | 11,862,000 | 475,500,000 | - | 13,290,225 | 57,044,435 |
| 6.5 | 126,953,757 | 28,294,335 | 3,597,875 | 450,000,000 | - | 11,862,000 | 475,500,000 | - | 13,290,225 | 57,044,435 |
| 7.0 | 98,003,701 | 28,950,057 | 2,942,153 | 450,000,000 | - | 11,862,000 | 475,500,000 | - | 13,290,225 | 57,044,435 |
| 7.5 | 68,382,726 | 29,620,974 | 2,271,236 | 450,000,000 | - | 11,862,000 | 475,500,000 | - | 13,290,225 | 57,044,435 |
| 8.0 | 38,075,286 | 30,307,440 | 1,584,770 | 450,000,000 | - | 11,862,000 | 475,500,000 | - | 13,290,225 | 57,044,435 |
| 8.5 | 7,065,471 | 31,009,815 | 882,395 | 450,000,000 | - | 11,862,000 | 475,500,000 | - | 13,290,225 | 57,044,435 |
| 9.0 | - | 7,065,471 | 163,742 | 425,337,003 | 24,662,997 | 11,862,000 | 475,500,000 | - | 13,290,225 | 57,044,435 |
| 9.5 | - | - | - | 392,794,676 | 32,542,327 | 11,211,883 | 475,500,000 | - | 13,290,225 | 57,044,435 |
| 10.0 | - | - | - | 359,394,534 | 33,400,142 | 10,354,068 | 475,500,000 | - | 13,290,225 | 57,044,435 |
| 10.5 | - | - | - | 325,113,964 | 34,280,570 | 9,473,640 | 475,500,000 | - | 13,290,225 | 57,044,435 |
| 11.0 | - | - | - | 289,929,758 | 35,184,206 | 8,570,004 | 475,500,000 | - | 13,290,225 | 57,044,435 |
| 11.5 | - | - | - | 253,818,096 | 36,111,662 | 7,642,548 | 475,500,000 | - | 13,290,225 | 57,044,435 |
| 12.0 | - | - | - | 216,754,531 | 37,063,565 | 6,690,645 | 475,500,000 | - | 13,290,225 | 57,044,435 |
| 12.5 | - | - | - | 178,713,971 | 38,040,561 | 5,713,649 | 475,500,000 | - | 13,290,225 | 57,044,435 |
| 13.0 | - | - | - | 139,670,661 | 39,043,310 | 4,710,900 | 475,500,000 | - | 13,290,225 | 57,044,435 |
| 13.5 | - | - | - | 99,598,169 | 40,072,491 | 3,681,719 | 475,500,000 | - | 13,290,225 | 57,044,435 |
| 14.0 | - | - | - | 58,469,367 | 41,128,802 | 2,625,408 | 475,500,000 | - | 13,290,225 | 57,044,435 |
| 14.5 | - | - | - | 16,256,410 | 42,212,958 | 1,541,253 | 475,500,000 | - | 13,290,225 | 57,044,435 |
| 15.0 | - | - | - | - | 16,256,410 | 428,519 | 448,430,719 | 27,069,281 | 13,290,225 | 57,044,435 |
| 15.5 | - | - | - | - | - | - | 403,919,922 | 44,510,796 | 12,533,639 | 57,044,435 |
| 16.0 | - | - | - | - | - | - | 358,165,049 | 45,754,873 | 11,289,562 | 57,044,435 |
| 16.5 | - | - | - | - | - | - | 311,131,327 | 47,033,722 | 10,010,713 | 57,044,435 |
| 17.0 | - | - | - | - | - | - | 262,783,012 | 48,348,314 | 8,696,121 | 57,044,435 |
| 17.5 | - | - | - | - | - | - | 213,083,363 | 49,699,650 | 7,344,785 | 57,044,435 |
| 18.0 | - | - | - | - | - | - | 161,994,608 | 51,088,755 | 5,955,680 | 57,044,435 |
| 18.5 | - | - | - | - | - | - | 109,477,922 | 52,516,686 | 4,527,749 | 57,044,435 |
| 19.0 | - | - | - | - | - | - | 55,493,395 | 53,984,527 | 3,059,908 | 57,044,435 |
| 19.5 | - | - | - | - | - | - | - | 55,493,395 | 1,551,040 | 57,044,435 |
| 20.0 | - | - | - | - | - | - | - | - | - | - |

Notes:

- Structure is preliminary and subject to change based on market conditions and rating agency requirements at the time of pricing.
- Structure is based in part upon information supplied by the Company, which is believed to be reliable but has not been verified. No representation or warranty is being made relating to this structure. Estimates of future performance are based on assumptions that may not be realized. Actual events may differ from those assumed and changes to any

assumptions may have a material impact on any projections or estimates. Other events not taken into account may occur and may significantly affect the projections or estimates. Certain assumptions may have been made for modeling purposes only to simplify the presentation and/or calculation of any projections or estimates. No assurance can be given that any such assumptions will reflect actual future events. Totals may not foot due to rounding.

3. Assumes "AAA(sf)" ratings by S&P and Moody's.
4. Assumes treasury rates as of June 25, 2025.

| # | Sponsor / Issuer | Deal Amount (\$ millions) | Pricing Date |
|----|---|---------------------------|--------------|
| 1 | American Electric Power Co (AEP) | 477.749 | 5-Jun |
| 2 | Cleco Power | 305.000 | 5-Mar |
| 3 | Rochester Gas and Electric Corporation | 75.300 | 6-Feb |
| 4 | New York State Electric & Gas Corporation | 710.600 | 4-Feb |
| 5 | Southwestern Electric Power Company | 336.700 | 24-Dec |
| 6 | Ameren | 476.121 | 24-Dec |
| 7 | Pacific Gas & Electric | 1,419.285 | 24-Jul |
| 8 | Duke Energy Corp | 177.000 | 24-Apr |
| 9 | Evergy Inc | 331.000 | 24-Feb |
| 10 | Dominion Energy Inc | 1,282.000 | 24-Feb |
| 11 | Algonquin Power & Utilities Corp | 305.000 | 24-Jan |
| 12 | CMS Energy Corp | 646.000 | 23-Dec |
| 13 | PNM Resources Inc | 343.000 | 23-Nov |
| 14 | DTE Energy Co | 602.000 | 23-Oct |
| 15 | CenterPoint Energy Inc | 341.000 | 23-Jun |
| 16 | Atmos Energy Kansas | 95.000 | Jun-23 |
| 17 | Edison International | 775.000 | 23-Apr |
| 18 | Entergy Corp | 1,491.000 | 23-Mar |
| 19 | Texas Public Finance Authority | 3,521.750 | 23-Mar |
| 20 | Entergy Corp | 209.000 | 22-Dec |
| 21 | Brazos Electric Power Cooperative | 713.000 | 22-Dec |
| 22 | Denton County Electric Cooperative Inc (CoServ) | 460.000 | 22-Dec |
| 23 | United Electric Cooperative Inc (UEC) | 452.000 | 22-Dec |
| 24 | Pacific Gas and Electric | 983.360 | 22-Nov |
| 25 | One Gas Kansas | 336.000 | 22-Nov |
| 26 | Summit Utilities Oklahoma | 81.570 | 22-Oct |
| 27 | Long Island Power Authority (UDSA) | 935.660 | 22-Sep |
| 28 | American Electric Power | 696.920 | 22-Aug |
| 29 | One Gas Oklahoma | 1,354.200 | 22-Aug |
| 30 | Pacific Gas and Electric | 3,899.960 | 22-Jul |
| 31 | Oklahoma Gas and Electric | 761.650 | 22-Jul |
| 32 | Cleco Power | 425.000 | 22-Jun |

| # | Sponsor / Issuer | Deal Amount (\$ millions) | Pricing Date |
|----|---|---------------------------|--------------|
| 33 | Electric Reliability Council of Texas | 2,115.700 | 22-Jun |
| 34 | Entergy Louisiana | 3,193.510 | 22-May |
| 35 | Pacific Gas and Electric | 3,600.000 | 22-May |
| 36 | Entergy Texas | 290.850 | 22-Mar |
| 37 | DTE Energy | 235.800 | 22-Mar |
| 38 | Rayburn | 908.220 | 22-Feb |
| 39 | Edison International | 533.270 | 22-Feb |
| 40 | Duke Energy North Carolina (DEP) | 769.630 | 21-Nov |
| 41 | Duke Energy North Carolina (DEC) | 237.210 | 21-Nov |
| 42 | Pacific Gas & Electric | 860.400 | 21-Nov |
| 43 | WEC Energy Group | 119.810 | 21-May |
| 44 | Edison International | 338.780 | 21-Feb |
| 45 | AEP Texas | 235.280 | 19-Sep |
| 46 | Public Service Company of New Hampshire | 635.700 | 18-May |
| 47 | Long Island Power Authority | 369.500 | 17-Oct |
| 48 | Long Island Power Authority | 469.300 | 16-Sep |
| 49 | Duke Energy Florida | 1,294.300 | 16-Jun |
| 50 | Long Island Power Authority | 637.800 | 16-Mar |
| 51 | Long Island Power Authority | 1,002.100 | 15-Oct |
| 52 | Entergy New Orleans | 98.700 | 15-Jul |
| 53 | Department of Business, Economic Development, and Tourism | 150.000 | 14-Nov |
| 54 | Entergy Louisiana | 243.900 | 14-Jul |
| 55 | Entergy Louisiana | 71.000 | 14-Jul |
| 56 | Consumers Energy | 378.000 | 14-Jul |
| 57 | Long Island Power Authority | 2,082.259 | 13-Dec |
| 58 | AEP West Virginia | 380.300 | 13-Nov |
| 59 | AEP Ohio | 267.400 | 13-Jul |
| 60 | FirstEnergy | 444.900 | 13-Jun |
| 61 | AEP Texas Central | 800.000 | 12-Mar |
| 62 | CenterPoint Energy Houston Electric | 1,695.000 | 12-Jan |
| 63 | Entergy Louisiana | 207.200 | 11-Sep |
| 64 | Entergy Arkansas | 124.100 | 10-Aug |
| 65 | Entergy Louisiana | 468.900 | 10-Jul |

| # | Sponsor / Issuer | Deal Amount (\$ millions) | Pricing Date |
|----|---|---------------------------|--------------|
| 66 | Entergy Gulf States Louisiana | 244.100 | 10-Jul |
| 67 | Potomac Edison Company | 21.500 | 09-Dec |
| 68 | Monongahela Power Company | 64.400 | 09-Dec |
| 69 | CenterPoint Energy | 664.900 | 09-Nov |
| 70 | Entergy Texas | 545.900 | 09-Nov |
| 71 | Entergy Louisiana | 278.400 | 08-Aug |
| 72 | Entergy Gulf States Louisiana | 687.700 | 08-Jul |
| 73 | Cleco Power | 180.600 | 08-Feb |
| 74 | CenterPoint Energy | 488.500 | 08-Jan |
| 75 | Baltimore Gas & Electric | 623.200 | 07-Jun |
| 76 | Entergy Gulf States | 329.500 | 07-Jun |
| 77 | Florida Power and Light | 652.000 | 07-May |
| 78 | Monongahela | 344.500 | 07-Apr |
| 79 | Potomac Edison | 114.800 | 07-Apr |
| 80 | AEP Texas Central | 1,740.000 | 06-Sep |
| 81 | Jersey Central Power & Light | 182.400 | 06-Aug |
| 82 | CenterPoint Houston | 1,851.000 | 05-Dec |
| 83 | Pacific Gas & Electric | 844.500 | 05-Nov |
| 84 | West Penn Power | 115.010 | 05-Sep |
| 85 | Public Service Electric & Gas | 102.700 | 05-Sep |
| 86 | Nstar (Boston Edison) | 674.500 | 05-Feb |
| 87 | Pacific Gas & Electric | 1,887.900 | 05-Feb |
| 88 | Rockland Electric | 46.310 | 04-Jul |
| 89 | State of Connecticut (CL&P/UIC) | 205.300 | 04-Jun |
| 90 | TXU Electric Delivery | 789.800 | 04-May |
| 91 | Atlantic City Electric | 152.000 | 03-Dec |
| 92 | Oncor Electric Delivery | 500.000 | 03-Aug |
| 93 | Atlantic City Electric | 440.000 | 02-Dec |
| 94 | Jersey Central Power and Light | 320.000 | 02-Jun |
| 95 | Central Power and Light | 797.300 | 02-Jan |
| 96 | Public Service Company of New Hampshire | 50.000 | 02-Jan |
| 97 | Consumers Energy | 468.600 | 01-Oct |
| 98 | Reliant Energy | 748.900 | 01-Oct |

| # | Sponsor / Issuer | Deal Amount (\$ millions) | Pricing Date |
|--------------|---|---------------------------|--------------|
| 99 | Western Massachusetts | 155.000 | 01-May |
| 100 | Public Service Company of New Hampshire | 525.000 | 01-Apr |
| 101 | Connecticut Light & Power | 1,438.400 | 01-Mar |
| 102 | Detroit Edison | 1,750.000 | 01-Mar |
| 103 | PECO Energy | 805.500 | 01-Feb |
| 104 | PSE&G | 2,525.000 | 01-Jan |
| 105 | PECO Energy | 1,000.000 | 00-Apr |
| 106 | West Penn Power | 600.000 | 99-Nov |
| 107 | Pennsylvania Power & Light | 2,420.000 | 99-Jul |
| 108 | Boston Edison | 725.000 | 99-Jul |
| 109 | Sierra Pacific Power | 24.010 | 99-Mar |
| 110 | PECO Energy | 4,000.000 | 99-Mar |
| 111 | Illinois Power | 864.000 | 98-Dec |
| 112 | Commonwealth Edison | 3,400.000 | 98-Dec |
| 113 | Montana Power | 62.710 | 98-Dec |
| 114 | San Diego Gas & Electric | 658.000 | 97-Dec |
| 115 | Southern California Edison | 2,463.000 | 97-Dec |
| 116 | Pacific Gas & Electric | 2,901.000 | 97-Nov |
| 117 | Puget Sound Energy | 35.210 | 97-Jul |
| 118 | Puget Sound Power & Light | 202.250 | 95-Jun |
| Total | | 93,987.94 | |