Surety Bond

(Bond No. \_\_\_\_\_\_\_)

KNOW ALL MEN BY THESE PRESENTS, that we, \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_, as principal (the "Principal") and \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_, a corporation organized under the State of \_\_\_\_\_\_\_\_\_, and duly authorized to transact business in the State of \_\_\_\_\_\_\_\_\_\_\_, as surety (in such capacity, "Surety"), are held and firmly bound unto U.S. Bank, National Association, as Indenture Trustee under the Indenture (the “Indenture”) dated as of September 18, 2019 between the Indenture Trustee and AEP Texas Restoration Funding LLC (the “Note Issuer”), as oblige (the "Oblige"), for the Aggregate Amount (as defined in paragraph 3), payable in lawful money of the United States, to the payment of which well and truly to be made we hereby bind ourselves and our heirs, administrators, successors, and assigns, jointly and severally, firmly by these presents.

WHEREAS, the Principal has agreed to serve as a Retail Electric Provider (“REP”) under Texas law and in such capacity will collect transition charges owed to the Note Issuer by customers;

WHEREAS, the obligations of the Principal will be set forth from time to time in regulations and tariffs of the Public Utility Commission of Texas (collectively, the “PUCT Regulations”) and may be set forth from time to time in agreements entered into between the Principal and AEP Texas Inc. or its successor (collectively, the “REP Service Agreements”);

WHEREAS, all obligations of Principal with respect to the transition charges, whether evidenced by PUCT Regulations, a REP Service Agreement or otherwise, are referred to herein as the “Obligations”:

WHEREAS, pursuant to PUCT Regulations, the Principal is required to provide a surety bond or other credit support in favor of the Indenture Trustee to secure its Obligations with respect to transition charges; and

WHEREAS, it is intended that this Bond will provide the security which is required under the PUCT Regulations;

NOW, THEREFORE, if the Principal shall comply with and faithfully perform its Obligations, then this Bond shall be null and void, and otherwise to be in full force and effect.

PROVIDED, HOWEVER, that this Bond is executed by the Surety and accepted by the oblige subject to the following express conditions:

1. Payment Under Bond. The Surety shall satisfy and discharge the Obligations of the Principal (to the extent such Obligations consist of the payment of money) and shall pay to Oblige all such amounts attributable to the Principal’s failure to perform one or more of its Obligations which does not consist of the payment of money in accordance with paragraph 2, but subject to paragraph 3, only after the Oblige delivers a Demand for Payment substantially in the form of Exhibit A. Except as set forth in this paragraph 1, the obligations of the Surety are absolute and unconditional irrespective of the value, genuineness, validity, regularity or enforceability of the Obligations, or any substitution, release or exchange of any other guarantee of or security for any of the Principal's Obligations, and, to the fullest extent permitted by applicable law, irrespective of any other circumstance whatsoever that might otherwise constitute a legal or equitable discharge or defense of a surety. Without limiting the generality of the foregoing, it is agreed that the occurrence of any one or more of the following shall not alter or impair the liability of the Surety under this Bond which shall remain absolute and unconditional as described above:
	1. at any time or from time to time, without notice to the Surety, the PUCT Regulations or any REP Service Agreement and the Principal's Obligations thereunder are amended, increased, supplemented or modified; or
	2. at any time or from time to time, without notice to the Surety, the time for any performance of, or compliance with, any of the Principal's Obligations shall be extended or such performance or compliance shall be waived.
2. Time for Payment. Upon satisfaction of the conditions specified in paragraph 1, the Surety shall, not later than thirty (30) calendar days after delivery of Demand for Payment by the Oblige, pay the amount requested thereon to the Oblige. Multiple partial draws shall be permitted under this Bond throughout its term.
3. Surety's Maximum Liability. The maximum aggregate liability (the "Aggregate Amount") of the Surety under this Bond during any annual term shall not exceed the sum of [$\_\_\_\_][[1]](#footnote-1). The Aggregate Amount may only be changed if the Surety executes and delivers to the Oblige via reputable overnight courier an irrevocable Change Notice substantially in the form of Exhibit B bearing the Surety's seal and containing a representation and warranty that the change notice has been duly authorized and executed by the Surety; provided, however, any Change Notice that reduces the Aggregate Amount in any manner shall require the acknowledgement and agreement of AEP Texas Inc. or its successor as Servicer for the Notes issued pursuant to the Indenture.
4. Term. This Bond shall be effective on \_\_\_\_\_\_\_\_\_\_ \_\_, \_\_\_\_, and shall remain in effect for consecutive annual terms until terminated or canceled (a) by the Surety in a writing delivered to the Principal and the Oblige not less than [ninety (90) days] prior to the expiration date of the then-current term if such cancellation is permitted by PUCT Regulations or (b) by the Oblige in a writing delivered to the Surety and the Principal not less [than ninety (90) days] prior to the expiration date of the then-current term. Any Obligations incurred by the Principal prior to the expiration of the then-current term shall survive such expiration and continue to be a liability of the Surety until paid in full by the Principal.
5. Acknowledgements, Waivers and Consents. In full recognition and in furtherance of the foregoing, Surety agrees that:
	1. Without affecting the enforceability or effectiveness of this Bond in accordance with its terms and without affecting, limiting, reducing, discharging or terminating the liability of the Surety, or the rights, remedies, powers and privileges of the Oblige under this Bond, the Oblige may, at any time and from time to time and without notice or demand of any kind or nature whatsoever:
		1. amend, supplement, modify, extend, renew, waive, accelerate or otherwise change the time for payment or performance of, or the terms of, all or any part of the Principal's Obligations (including any increase or decrease in the rate or rates of interest);
		2. amend, supplement, modify, extend, renew, waive or otherwise change, or enter into or give, any agreement, security document, guarantee, approval, consent or other instrument relating to all or any part of the Principal's Obligations;
		3. accept or enter into new or additional agreements, security documents, guarantees (including letters of credit) or other instruments in addition to, in exchange for or relative to the Principal’s Obligations;
		4. accept or receive partial payments or performance on the Principal's Obligations (whether as a result of the exercise of any right, remedy, power or privilege or otherwise);
		5. accept, receive and hold any additional collateral for all or any part of the Principal's Obligations;
		6. release, reconvey, terminate, waive, abandon, allow to lapse or expire, fail to perfect, subordinate, exchange, substitute, transfer, foreclose upon or enforce any collateral, security documents or guarantees (including letters of credit) for or relative to all or any part of the Principal's Obligations;
		7. apply any collateral or other collateral posted as it relates solely to the Principal's Obligations to all or any part of the Principal's Obligations in such manner and extent as the Oblige may in its discretion determine;
		8. release any Person from any personal liability with respect to all or any part of the Principal's Obligations;
		9. settle, compromise, release, liquidate or enforce upon such terms and in such manner as the Oblige may determine or as applicable law may dictate all or any part of the Principal's Obligations or any collateral on or guarantee of (including any letter of credit issued with respect to) all or any part of such Principal's Obligations;
		10. consent to the merger or consolidation of, the sale of substantial assets by, or other restructuring or termination of the corporate existence of the Principal; and
		11. enter into such other transactions or business dealings with the Principal (or any of its affiliates) or any other guarantor of all or any part of such Principal's Obligations as Oblige may desire.
	2. The enforceability and effectiveness of this Bond and the liability of the Surety, and the rights, remedies, powers and privileges of the Oblige, under this Bond shall not be affected, limited, reduced, discharged or terminated, and the Surety hereby expressly waives to the fullest extent permitted by law any defense now or in the future arising, by reason of:
		1. the illegality, invalidity or unenforceability of all or any part of the Principal's Obligations, the PUCT Regulations, any REP Service Agreement, or any agreement, security document, guarantee or other instrument relative to all or any part of the Principal's Obligations;
		2. any disability or other defense with respect to all of any part of the Principal's Obligations or any of their guarantors, including the effect of any statute of limitations that may bar the enforcement of all or any part of the Principal's Obligations or the obligations of any such other guarantor;
		3. the illegality, invalidity or unenforceability of any security or guarantee (including any letter of credit) for all or any part of the Principal's Obligations or the lack of perfection or continuing perfection or failure of the priority of any lien on any collateral for all or any part of the Principal's Obligations;
		4. the cessation, for any cause whatsoever, of the liability of the Principal or any guarantor of all or any part of the Principal's Obligations (other than, subject to paragraph 6, by reason of the full payment and performance of all of the Principal's Obligations);
		5. except as expressly required under paragraph 1, any failure of the Oblige to marshal assets in favor of the Principal or any other Person to exhaust any collateral for all or any part of the Principal’s Obligations, to pursue or exhaust any right, remedy, power or privilege it may have against such Principal, any other guarantor of all or any part of the Obligations (including any issuer of any letter of credit) or any other Person or to take any action whatsoever to mitigate or reduce the Surety's liability under this Bond, the Oblige is not under any obligation to take any such action notwithstanding the fact that all or any part of such Principal's Obligations may be due and payable and that such Principal may be in default of its Obligations;
		6. any failure of the Oblige to comply with applicable laws, including PUCT Regulations, in connection with the sale or other disposition of any collateral for all or any part of the Principal's Obligations;
		7. any act or omission of the Oblige or any other Person that directly or indirectly results in or aids the discharge or release of all or any part of any security or guarantee (including any letter of credit) for all or any part of such obligations by operation of law or otherwise;
		8. any law which provides that the obligation of a surety or guarantor must neither be larger in amount nor in other respects more burdensome than that of the principal or which reduces a surety's or guarantor's obligation in proportion to the principal obligation;
		9. the possibility that the Obligations of the Principal to the Oblige may at any time and from time to time exceed the aggregate liability of the Surety under this Bond;
		10. any counterclaim, set-off (including as permitted by 11 U.S.C. § 362) or other claim which the Principal has or alleges to have with respect to all or any part of its Obligations;
		11. any failure of the Oblige to file or enforce a claim in any bankruptcy or other proceeding with respect to any Person;
		12. the election by the Oblige to exercise or not to exercise any liquidation rights it may have pursuant to 11 U.S.C. § 556;
		13. the election by the Oblige, in any bankruptcy proceeding of any Person, of the application or non-application of 11 U.S.C. § 1111(b)(2);
		14. any extension of credit or the grant of any lien under 11 U.S.C. § 364;
		15. any use of cash collateral under 11 U.S.C. § 363;
		16. any agreement or stipulation with respect to the provision of adequate protection in any bankruptcy proceeding of any Person;
		17. the avoidance of any lien in favor of the Oblige for any reason;
		18. any bankruptcy, insolvency, reorganization, arrangement, readjustment of debt, liquidation or dissolution proceeding commenced by or against any Person, including any discharge of, or bar or stay against collecting, all or any part of the Principal's Obligations (or any interest on all or any part of the Principal's Obligations) in or as a result of any such proceeding;
		19. any action taken by the Oblige that is authorized by this paragraph 5 or otherwise in this Bond or by any other provision of the PUCT Regulations or any REP Service Agreement or any omission to take any such action; or
		20. any other circumstance whatsoever that might otherwise constitute a legal or equitable discharge or defense of a surety or guarantor, and any future judicial decisions or legislation or of any comparable provisions of the laws of any other jurisdiction.
	3. Notwithstanding anything to the contrary, which may be contained herein, Surety expressly reserves its right to raise against the Principal any defense(s) which may have been waived by Surety with respect to the Oblige pursuant to paragraph 5(b).
	4. The Surety expressly waives, for the benefit of the Oblige, all rights to set-off amounts due by the Oblige, including its parent company, to the Principal, all counterclaims, and all presentments, demands for payment or performance, notices of nonpayment or nonperformance, protests, notices of protest, notices of dishonor and all other notices or demands of any kind or nature whatsoever with respect to the Principal's Obligations, and all notices of acceptance of this Bond or of the existence, creation, incurring or assumption of new or additional obligations.
	5. Nothing in this Bond will, or will be construed or applied to, modify the Principal's Obligations.
6. Reinstatement. The obligations of the Surety under this Bond shall be automatically reinstated if and to the extent that, for any reason, any payment or performance by or on behalf of the Principal in respect of such Principal's Obligations is rescinded or must be otherwise restored by any holder of any of such Obligations, whether as a result of any proceedings in bankruptcy or reorganization or otherwise.
7. Subrogation. The Surety hereby agrees that until the payment, performance and satisfaction in full of all of the Principal's Obligations which are the subject of this Bond, it shall not exercise any right or remedy arising by reason of any performance by it under this Bond, whether by subrogation or otherwise, against any other guarantor of any of the Principal's Obligations.
8. Remedies. The Surety agrees that, as between the Surety and the Oblige, the payment under this Bond may be declared to be forthwith due and payable, notwithstanding any stay, injunction or other prohibition preventing such declaration as against the Principal and that, in the event of such declaration, such obligations (whether or not due and payable by the Oblige) shall forthwith become due and payable by Surety for purposes of this Bond. Without limitation on the rights, remedies, powers and privileges of the Oblige hereunder, if any breach of the Principal’s Obligations shall occur, payment under this Bond shall forthwith become due and payable by the Surety.
9. Costs and Expenses. The Surety agrees to pay all of the Obliges costs and expenses (including, without limitation, reasonable attorneys' fees) which may be incurred in connection with the collection or enforcement of the Surety's obligations under this Bond, including all such costs and expenses which may be incurred by the Oblige in any legal action, reference or arbitration proceeding. Nothing contained herein shall be construed to obligate the Oblige to pay any fees or expenses incurred in connection with the issuance of this Bond.
10. Entire Agreement. This Bond embodies the entire agreement and understanding relating to the subject matter hereof; no parol or extrinsic evidence may be introduced or considered in any judicial or arbitration proceeding for any purpose, including to interpret or clarify any term or provision of this Bond.
11. Captions. The captions and section headings appearing in this Bond are included solely for convenience of reference and are not intended to affect the meaning or interpretation of any provision of this Bond.
12. Severability. The illegality or unenforceability of any provision of this Bond shall not in any way affect or impair the legality or enforceability of the remaining provisions of this Bond.
13. Governing Law. The Bond executed and delivered shall be governed by and construed in accordance with the laws of the State of Texas applicable to contracts made and to be performed in Texas.

Signed, sealed and dated this \_\_\_\_\_\_\_\_\_\_\_\_\_ day of \_\_\_\_\_\_\_\_\_\_\_\_\_, \_\_\_\_\_.

SURETY

By: (seal)

PRINCIPAL

By: (seal)

List of Exhibits

Exhibit A – Form of Demand for Payment

Exhibit B – Form of Surety Bond Change Notice

EXHIBIT A TO

SURETY BOND NO.

[FORM OF DEMAND FOR PAYMENT]

(Date)

(Address of Surety)

RE: Surety Bond Number (the "Bond") for [Name of Principal]
Demand for Payment

Ladies and Gentlemen:

This letter constitutes a Demand for Payment as defined in the Bond. All capitalized terms used and not otherwise defined herein shall have the meanings assigned in the Bond.

[Insert one or more of the following three paragraphs, as applicable:

The Principal has defaulted in the performance of one or more of its Obligations. For the purposes of this Demand for Payment, the phrase "fully liquidated or otherwise exhausted" means that there still remains amounts due and owing with respect to the Principal’s Obligations notwithstanding the fact that we have issued demands for payment of such amounts which for any reason whatsoever have not been paid in full within thirty calendar days of such demand. The amount of unpaid Obligations as of the date hereof is \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_.

The Principal has defaulted in the performance of one or more of its Obligations. For the purposes of this Demand for Payment, the phrase “fully liquidated or otherwise exhausted” means that Principal has not performed one or more of its Obligations notwithstanding the fact that we have demanded such performance which for any reason whatsoever has not been rendered within thirty calendar days of such demand. The amount recoverable under the Bond as of the date hereof on account of the Principal’s failure to perform its Obligations is $\_\_\_\_\_\_\_\_.

The Bond is scheduled to expire or be reduced no later than thirty (30) days from the date hereof, and the Principal, who still has outstanding Obligations, has failed to deliver a replacement or renewal Bond or other form of credit support acceptable to the Oblige. The amount of unpaid Obligations as of the date hereof is \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_.]

Please pay such amount in accordance with the following payment instructions: \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_.

[Oblige]

By: \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_
Name: \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_
Title: \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

**EXHIBIT B TO
 SURETY BOND NO. \_\_\_\_\_\_**

[FORM OF] SURETY BOND CHANGE NOTICE

[Oblige]

\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_
\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

 Re: Surety Bond Number \_\_\_\_\_\_\_\_\_\_\_ (the "Bond") for [Name of Principal]

Ladies and Gentlemen:

Capitalized terms used but not otherwise defined herein shall have the meanings assigned in the Bond.

*[Use one or more forms of paragraph A, as appropriate.]*

1. *This constitutes our notice pursuant to paragraph 3 of the Bond of an increase in the Aggregate Amount effective [insert any date] (the "Change Date"). Presently the Aggregate Amount under the Bond is $\_\_\_\_\_\_\_\_\_. We hereby bind ourselves and our heirs, administrators, successors and assigns, jointly and severally, to an Aggregate Amount in the amount of $\_\_\_\_\_\_\_\_\_\_, and represent and warrant to you that this notice has been duly authorized and executed. We understand that this change notice may not be revoked or amended by us except by delivery of an additional change notice that meets the requirements of paragraph 3 of the Bond.*

or

1. *This constitutes our notice pursuant to paragraph 3 of the Bond to amend the Aggregate Amount effective [insert any date] (the "Change Date") by reducing the Security Amount. Presently the Security Amount under the Bond is $\_\_\_\_\_\_\_\_\_. We hereby bind ourselves and our heirs, administrators, successors and assigns, jointly and severally, to an Incremental Security Amount in the amount of $\_\_\_\_\_\_\_\_\_\_, and consistent with paragraph 3 of the Bond, represent and warrant to you that this change notice has been duly authorized and executed. To the extent any claims arise or are attributable to the period prior to the Change Date, we confirm our obligations to pay such claims up to the Aggregate Amount in effect prior to the Change Date. We understand and acknowledge that this change notice may not be revoked or amended by us except by delivery of an additional change notice that meets the requirements of paragraph 3 of the Bond.*

B. The Bond remains, in all respects, in full force and effect without change except as set forth herein.

Signed, sealed, and dated, this \_\_\_\_\_ day of \_\_\_\_\_\_\_\_\_\_, \_\_\_\_\_\_\_\_\_\_\_\_\_.

SURETY

By: \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ (Seal)

[Include if the Change Notice involves a reduction of the Security Amount]
ACKNOWLEDGED AND AGREED:

AEP TEXAS INC. [or its successor], as Servicer

By: \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

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1. [↑](#footnote-ref-1)