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JOINT REPORT AND APPLICATION §
OF ONCOR ELECTRIC DELIVERY §
COMPANY LLC, SHARYLAND §
DISTRIBUTION & TRANSMISSION §
SERVICES, L.L.C., SHARYLAND §
UTILITIES, L.P., AND SEMPRA §
ENERGY FOR REGULATORY §
APPROVALS UNDER PURA §§ 14.101, §
37.154, 39.262, AND 39.915 §

PUBLIC UTILITY COMMISSION
OF TEXAS

AMENDED PRELIMINARY ORDER

Oncor Electric Delivery Company LLC, Sharyland Distribution & Transmission Services, L.L.C., Sharyland Utilities, L.P., and Sempra Energy jointly filed a report and application for Commission approval of a series of mutually dependent transactions that will ultimately result in Oncor owning a significant portion of Sharyland Distribution & Transmission Services assets in a wholly-owned subsidiary, referred to as the North Texas Utility, and Sharyland Utilities owning transmission assets solely in the South Texas region, referred to as the South Texas Utility. In addition, Sempra Energy intends to acquire an indirect 50% ownership interest in the restructured Sharyland Utilities. Joint applicants have stated that none of the agreements underlying the transactions will become effective without closing of the others. This preliminary order identifies the issues that must be addressed in this docket.

The joint applicants seek a Commission determination that the transactions are in the public interest under Public Utility Regulatory Act¹ (PURA) §§ 14.101, 39.262(l)-(m), and 39.915.² In addition, the applicants request that the certificates of convenience and necessity of Sharyland Utilities and Sharyland Distribution & Transmission Services be amended and transferred such that the North Texas Utility and South Texas Utility are authorized to own and operate each respective utility's assets after the transactions close.³ Finally, the joint applicants request that the

¹ Public Utility Regulatory Act, Tex. Util. Code §§ 11.001-66.017 (PURA).

² Joint Application at 2.

³ *Id.* at 14-15.

Commission approve the additional regulatory findings and commitments set forth in exhibit A to the joint report and application, and discussed in detail below.⁴

I. Overview of Proposed Transactions

The joint applicants have requested Commission approval of a transaction that is composed of a series of three separate transactions. The joint applicants have stated that the agreements underlying the three transactions are mutually dependent, and no transaction will be effective without the closing of the other transactions.⁵

A. First Transaction: Sharyland Utilities and Sharyland Distribution & Transmission Services Asset Swap

The first transaction is intended to transfer transmission assets between Sharyland Utilities and Sharyland Distribution & Transmission Services so that Sharyland Utilities transfers its assets in north, central, and west Texas, including the Golden Spread project and the Lubbock Power & Light project, along with associated assets, liabilities, and working capital to Sharyland Distribution & Transmission Services.⁶ In exchange, Sharyland Utilities will receive all of Sharyland Distribution & Transmission Services' assets located in south Texas.⁷ As of June 30, 2018, the assets that Sharyland Utilities will transfer to Sharyland Distribution & Transmission Services have a net book value of \$115.5 million, and the assets that Sharyland Distribution & Transmission Services will transfer to Sharyland Utilities have a net book value of \$104.8 million.⁸ This transaction is governed by an agreement and plan of merger by and among Sharyland Utilities, Sharyland Distribution & Transmission Services, and Oncor, and is intended to function as a tax-free exchange under section 1031 of the Internal Revenue Code.⁹ With Commission approval, this transaction will cancel Sharyland Utilities' equity interest in Sharyland Distribution & Transmission Services.

⁴ *Id.* at 15; Exhibit A.

⁵ *Id.* at 6.

⁶ *Id.* at 5.

⁷ *Id.*

⁸ Direct Testimony of D. Greg Wilks at 9:2–3.

⁹ Joint Application at 5, Direct Testimony of Don Clevenger at Exhibit DJC-1.

The goal of this first transaction will transform the assets currently held by Sharyland Utilities and Sharyland Distribution & Transmission Services into two geographically distinct utilities. The first utility is referred to as the North Texas Utility, which will own only transmission and distribution assets in north, central, and west Texas, and is to be acquired indirectly by Oncor.¹⁰ The second utility is referred to as the South Texas Utility, which will own only transmission and distribution assets in South Texas and will continue to be owned by Sharyland Utilities, with an investment by Sempra Energy, discussed later.¹¹ The first transaction between Sharyland Utilities and Sharyland Distribution & Transmission Services will require the termination of certain agreements, including the leases between Sharyland Distribution & Transmission Services and Sharyland Utilities, and these terminations are addressed in an omnibus termination agreement.¹² Under this agreement, Sharyland Utilities and Sharyland Distribution & Transmission Services have agreed to terminate the leases between them, and InfraREIT Partners, LP, parent to Sharyland Distribution & Transmission Services is required to pay Hunt Utility Services a termination fee in the amount of \$40,536,000.¹³

B. Second Transaction: Oncor Acquisition of InfraREIT, Inc. and InfraREIT Partners

The second transaction involves Oncor's acquisition of InfraREIT, Inc. and InfraREIT Partners, the indirect owners of Sharyland Distribution & Transmission Services, in a merger governed by an agreement and plan of merger by and among Oncor Electric Delivery Company LLC, 1912 Merger Sub LLC, Oncor T&D Partners, L.P., InfraREIT, Inc., and InfraREIT Partners, LP.¹⁴ Under this agreement, Oncor will acquire InfraREIT, Inc. and InfraREIT Partners through both a cash payment of \$21.00 per share or partnership interest to InfraREIT Inc.'s stockholders and the limited partners of InfraREIT Partners, totaling about \$1.275 billion, and the assumption of the outstanding debt of InfraREIT Inc.'s subsidiaries, which amounted to approximately \$945 million as of September 30, 2018.¹⁵ Oncor intends to finance the acquisition with capital contributions from Oncor's majority parent, Sempra Energy, and Oncor's minority owner, Texas

¹⁰ Clevenger Direct at 5:22-25.

¹¹ *Id.*

¹² Direct Testimony of Brant Meleski at 7:15-19.

¹³ *Id.* at 7:19-24.

¹⁴ Joint Report and Application at 11; Clevenger Direct at Exhibit DJC-2.

¹⁵ Joint Report and Application at 11.

Transmission Investments, LLC, under an equity commitment letter dated October 18, 2018.¹⁶ As a result of this transaction, Oncor will own all of the outstanding ownership interests of InfraREIT, Inc. and InfraREIT Partners, which includes indirect ownership of Sharyland Distribution & Transmission Services, and InfraREIT Inc.'s taxable status as a real estate investment trust will end.¹⁷

After the closing of this transaction, GS Project Entity, L.L.C., which owns the Golden Spread project, will be merged into Sharyland Distribution & Transmission Services, and CV Project Entity, L.L.C., which owns the Cross Valley project, will be merged into Sharyland Utilities. After the merger of these two entities into Sharyland Distribution & Transmission Services and Sharyland Utilities, their respective assets will be owned directly by Sharyland Distribution & Transmission Services and Sharyland Utilities.¹⁸ Joint applicants have requested that the Commission find that these transactions are in the public interest under PURA §§ 14.101, 39.262(l)-m, and 39.915.¹⁹

C. Third Transaction: Sempra Energy Investment in Sharyland Utilities

The third transaction involves an investment by Sempra Energy in a new entity, Sharyland Holdings, L.P. that will own 100% of Sharyland Utilities, which will at that point only own transmission and distribution assets in south Texas. Sharyland Utilities, SU Investment Partners, L.P., Sempra Energy, and Sempra Texas Utilities Holdings I, LLC, a wholly-owned subsidiary of Sempra, have entered into an agreement under which Sempra Texas will purchase from SU Investment Partners, L.P. a 50% limited partner interest in a newly formed Delaware limited partnership, expected to be named Sharyland Holdings, L.P. that will wholly own Sharyland Utilities.²⁰ For that limited partnership interest, Sempra Energy proposes to pay approximately \$98 million.²¹ While Sharyland Holdings GP, L.L.C., as general partner of Sharyland Holdings, will be in control of the daily operations of Sharyland Utilities, Sempra Energy will retain certain consent rights, generally regarding budgetary and capital expenditures, organizational and

¹⁶ *Id.*

¹⁷ Clevenger Direct at 12:6-9.

¹⁸ Wilks Direct at 6:25-30.

¹⁹ Joint Report and Application, Exhibit A at 4.

²⁰ Wilks Direct at 6:11-18.

²¹ Direct Testimony of Trevor Mihalik Direct at 17:9-11.

governance matters, and legal and accounting matters.²² Sharyland Holdings GP is indirectly owned by “Hunt Sharyland, L.L.C., a wholly-owned indirect subsidiary of Hunt Consolidated, Inc., and SUIP Holdings, L.L.C., an entity owned by SUIP Family Holdings, L.P., which is an entity owned by Hunter L. Hunt and other members of the family of Ray L. Hunt or trusts for their benefit and controlled by Hunter L. Hunt. SUIP Holdings, L.P. will own the majority of the limited partner interests of [SU Investment Partners], and the general partner of [SU Investment Partners] will continue to be an entity controlled by Hunter L. Hunt.”²³

D. Future Development Agreement

Oncor and the South Texas Utility have entered into a future development agreement as part of the proposed transactions. The future development agreement is an unexecuted agreement between Oncor and the South Texas Utility regarding certain future projects that may be developed to interconnect with the North Texas Utility assets acquired by Oncor and certain additional projects that are either under construction or subject to the Commission’s certificate of convenience and necessity process at the time of closing. Under this agreement, the South Texas Utility could propose certain projects to Oncor, and with approval of the projects by ERCOT and the Commission, Oncor would be entitled to participate in the ownership of those facilities.²⁴

II. Requested Regulatory Findings

The joint applicants also request that the Commission approve the following:²⁵

- Establishment of separate wholesale transmission rates and tariffs for the North Texas Utility’s assets and the South Texas Utility’s assets on terms that do not vary materially from the those proposed in the application, *i.e.*, generally that the sum of the wholesale transmission rates of the North Texas Utility and South Texas Utility after the closing of the proposed transactions will equal Sharyland Utilities’ wholesale transmission rates before the closing;

²² *Id.* at 18:8–13.

²³ Wilks Direct at 9:31–10:6.

²⁴ Direct Testimony of Wesley Speed at 8:20–27.

²⁵ Joint Report and Application at Exhibit A.

- A finding that Oncor may consolidate the North Texas Utility with Oncor for ratemaking purposes and make a combined rate filing in Oncor's next base-rate case, to be filed no later than October 2021;
- A finding that Oncor may consolidate the North Texas Utility with Oncor for calculation and reporting of its earnings monitor report and for purposes of compliance with the final order in Docket No. 47675;²⁶
- A finding that the cash equity contributions invested by Oncor's owners used to directly finance Oncor's acquisition of InfraREIT Inc. and InfraREIT Partners, LP will be included in the calculations reported in Oncor's earnings monitor report solely for purposes of compliance with Oncor's debt-to-equity ratio requirement set by the final order in Docket No. 47675;
- A finding requiring the South Texas Utility to file a base-rate case no later than December 31, 2020 based on a test year ending one year after the closing of the proposed transactions;
- A finding that Oncor can provide operation and maintenance services to the North Texas Utility under 16 Texas Administrative Code (TAC) § 25.272 and a finding that the provision of those services does not require a tariff and does not require that those services be made available to third parties;
- A finding that Oncor can provide operation and maintenance services to assets in which Oncor holds a joint undivided interest with the South Texas Utility under 16 TAC § 25.272 and a finding that the provision of those services does not require a tariff and does not require that those services be made available to third parties;
- The cancellation of Sharyland Utilities' interest in Sharyland Distribution & Transmission Services and related economic and management interests in Sharyland Distribution & Transmission Services; and
- A finding that Oncor can create a regulatory asset to track any make-whole payments or other expenses that may be required to extinguish, transfer to Oncor,

²⁶ *Joint Report and Application of Oncor Electric Delivery Company LLC and Sempra Energy For Regulatory Approvals Pursuant to PURA §§ 14.101, 39.262, and 39.915, Docket No. 47675, Order (Mar. 8, 2018).*

or restructure the debt of InfraREIT and its subsidiaries and may seek rate recovery of this asset in a future case.

III. Proposed Commitments

The joint applicants proposed the following commitments:²⁷

- Oncor and Sempra Energy commit that the North Texas Utility will be governed and managed within the existing ring-fencing structure that governs Oncor today;
- Oncor and Sharyland Utilities commit to amend their respective existing codes of conduct to include the North Texas Utility, the South Texas Utility, or any new affiliates resulting from the proposed transactions; and
- Oncor and Sharyland Utilities will each commit to provide to their respective ratepayers bill credits equal to 90% of the interest savings that it realizes as a result of improved credit quality of the North Texas Utility and the South Texas Utility, if any, and debt-issuance savings realized, if any.

IV. Procedural History

The joint report and application was filed on November 30, 2018. Under PURA §§ 39.262(m) and 39.915(b), the Commission must make a determination by May 29, 2019. A hearing on the merits is scheduled to be held by the Commission from April 10 through 12. The Commission is required to make a determination on the transaction at issue in this docket not later than May 29, 2019.

The Office of Public Utility Counsel, the Steering Committee of Cities Served by Oncor (Cities), the Texas Industrial Energy Consumers, the Texas Cotton Ginners' Association, and the City of Lubbock through Lubbock Power & Light were granted intervention in this docket. Mr. Gregory Lohn, the Electric Reliability Council of Texas, Inc., the Alliance for Retail Markets, and the Texas Energy Association for Marketers have filed motions to intervene that have not yet been granted. The joint applicants filed an objection to Mr. Lohn's motion to intervene on January 7, 2019. Golden Spread Electric Cooperative filed an untimely motion to intervene on January 9, 2019.

²⁷ Joint Report and Application at Exhibit A.

The applicants were directed and Commission Staff and other interested persons were allowed to file a list of issues to be addressed in the docket and also identify any issues not to be addressed and any threshold legal or policy issues that should be addressed by January 5, 2019. The joint applicants, Commission Staff, Cities, and the Texas Industrial Energy Consumers each timely filed a list of issues.

V. Issues to be Addressed

After reviewing the pleadings submitted by the parties, the Commission identifies the following issues that must be addressed in this docket:

A. General Issues

1. Considering each component transaction as addressed further below, is the series of proposed transactions as a whole reasonable and in the public interest under PURA §§ 14.101, 39.262(l)–(m), and 39.915?
2. For each proposed transaction, is the application sufficient for the Commission's consideration? If not, what action should the Commission take?
3. Have the applicants complied with reporting requirements under PURA §§ 14.101, 39.262(l), 39.915(b), and 16 TAC § 25.74?
4. Have the applicants provided reasonable notice to affected persons regarding the filing of the application under 16 TAC § 22.55?

B. Sharyland Utilities and Sharyland Distribution & Transmission Services Asset Swap

5. Is the proposed transaction consistent with the public interest, considering the following factors as identified in PURA § 14.101(b)?
 - a. What is the reasonable value of the property, facilities, or securities to be acquired, disposed of, merged, transferred, or consolidated?
 - b. Will the transaction adversely affect the health or safety of customers or employees?
 - c. Will the transaction result in the transfer of jobs of citizens of this state to workers domiciled outside this state?
 - d. Will the transaction result in a decline in service?

- e. Will Sharyland Utilities, L.P. receive consideration equal to the reasonable value of the assets when it sells, leases, or transfers assets?
 - f. Will Sharyland Distribution & Transmission Services, LLC receive consideration equal to the reasonable value of the assets when it sells, leases, or transfers assets?
6. Is the proposed transaction consistent with the public interest, considering the following factors as identified in PURA §§ 39.262(m) and 39.915(b)?
- a. Will the transaction adversely affect the reliability of service?
 - b. Will the transaction adversely affect the availability of service?
 - c. Will the transaction adversely affect the cost of service?
7. If this transaction is found not to be in the public interest, how will the financial implications of the transaction be addressed to eliminate unreasonable costs in future ratemaking proceedings?
8. Will this transaction result in any benefits to Texas customers on a timely basis?
- a. What are those benefits?
 - b. What is a reasonable estimate of the amount of the benefits that result from this transaction?
 - c. What benefits, if any, cannot be quantified?
 - d. Do the benefits of the transaction to Texas ratepayers exceed its corresponding costs and risks to those same ratepayers? How should benefits that cannot be quantified be addressed in this evaluation?
 - e. What methods, if any, are necessary to ensure that ratepayers receive the benefits of this transaction?
 - f. Does the transaction do more than promise cost savings for Texas ratepayers?
 - g. Does the transaction cause Texas ratepayers to bear transaction costs unrelated to corresponding benefits to Texas ratepayers?
 - h. Do the benefits of the transaction to Texas ratepayers exceed the corresponding costs and risks to those same ratepayers over a medium- and long-term horizon?
8. Will the proposed transaction result in improvements in service to Texas ratepayers?

9. Will the proposed transaction impede electric utility competition in Texas?
 - a. Will the transaction result in concentration of market power?
 - b. Should the applicants be required to provide guarantees to ensure that no cost shifting, cross subsidies, or discriminatory behavior occurs among affiliates of the applicants? If so, what guarantees should be required?
10. What other conditions, if any, should the Commission place on the approval of the proposed transactions?
11. What reporting requirements or reviews, if any, should be required for the transfer of assets?
12. What are the impacts of terminating InfraREIT's status as a real estate investment trust on customers? What conditions, if any, are necessary to insulate customers from any negative effects?
13. Is the cancellation of Sharyland Utilities' interest in Sharyland Distribution & Transmission Services and related economic and management interests in Sharyland Distribution & Transmission Services reasonable and in the public interest, and in accordance with the Commission's order in Docket No. 35287?²⁸

C. Oncor Acquisition of InfraREIT, Inc. and InfraREIT Partners, L.P.

14. Is the proposed transaction consistent with the public interest, considering the following factors as identified in PURA § 14.101(b)?
 - a. What is the reasonable value of the property, facilities, or securities to be acquired, disposed of, merged, transferred, or consolidated?
 - b. Will the transaction adversely affect the health or safety of customers or employees?
 - c. Will the transaction result in the transfer of jobs of citizens of this state to workers domiciled outside this state?
 - d. Will the transaction result in a decline in service?
15. Is the proposed transaction consistent with the public interest, considering the following factors as identified in PURA §§ 39.262(m) and 39.915(b)?

²⁸ *Joint Application of Sharyland Utilities LP and Sharyland Distribution & Transmission Service, LP for Regulatory Approvals Pursuant to PURA §§ 14.101, 39.262, and 39.915, Docket No. 35287, Order (July 21, 2008).*

- a. Will the transaction adversely affect the reliability of service?
 - b. Will the transaction adversely affect the availability of service?
 - c. Will the transaction adversely affect the cost of service?
16. If this transaction is found not to be in the public interest, how will the financial implications of the transaction be addressed to eliminate unreasonable costs in future ratemaking proceedings?
17. Will this transaction result in any benefits to Texas customers on a timely basis?
- a. What are those benefits?
 - b. What is a reasonable estimate of the amount of the benefits that result from this transaction?
 - c. What benefits, if any, cannot be quantified?
 - d. Do the benefits of the transaction to Texas ratepayers exceed its corresponding costs and risks to those same ratepayers? How should benefits that cannot be quantified be addressed in this evaluation?
 - e. What methods, if any, are necessary to ensure that ratepayers receive the benefits of this transaction?
 - f. Does the transaction do more than promise cost savings for Texas ratepayers?
 - g. Does the transaction cause Texas ratepayers to bear transaction costs unrelated to corresponding benefits to Texas ratepayers?
 - h. Do the benefits of the transaction to Texas ratepayers exceed the corresponding costs and risks to those same ratepayers over a medium- and long-term horizon?
18. Will the proposed transaction result in improvements in service to Texas ratepayers?
19. Will the proposed transaction impede electric utility competition in Texas?
- a. Will the transaction result in concentration of market power?
 - b. Should the applicants be required to provide guarantees to ensure that no cost shifting, cross subsidies, or discriminatory behavior occurs among affiliates of the applicants? If so, what guarantees should be required?

20. What effect will the proposed transaction have on Oncor's credit rating, cost of debt, cost of equity, and weighted cost of capital?
21. Will Oncor or Sempra Energy incur additional debt as a result of the proposed transactions?
22. Is it reasonable for Oncor to create a regulatory asset to track any make-whole payments or other expenses that may be required to extinguish, transfer, or restructure the debt assumed by Oncor?
23. Should the Commission require the North Texas Utility to be governed and managed within the existing ring-fencing structure that governs Oncor today? Are any changes to the ring-fencing structure necessary as a result of the proposed transaction?
24. Is it reasonable and in the public interest to maintain the North Texas Utility as a separate entity?
25. Is Oncor's commitment to provide to its ratepayers bill credits based on 90% of the interest savings realized as a result of the North Texas Utility's improved credit quality and any debt issuance savings realized reasonable and in the public interest? What is the appropriate mechanism to provide these bill credits to customers?
26. Is it reasonable and in the public interest for Oncor to consolidate the North Texas Utility with Oncor for ratemaking purposes and make a combined filing in Oncor's next base-rate case, to be filed by October 2021?
27. Is it reasonable and in the public interest for Oncor to consolidate the North Texas Utility with Oncor for calculation and reporting of its earnings monitor report and for purposes of compliance with finding of fact 56 of the final order in Docket No. 47675?
28. How should the Commission treat the cash equity contributions invested by Oncor's owners to finance the acquisition for Oncor's earnings monitor report?
29. How should the Commission treat the cash equity contributions invested by Oncor's owners to finance the acquisition for Oncor's compliance with the debt-to-equity ratio requirement set by the final order in Docket No. 47675?
30. What other conditions, if any, should the Commission place on the approval of the proposed transactions?

31. What reporting requirements or reviews, if any, should be required for the transfer of ownership?

D. Sempra Energy Investment in Sharyland Utilities

32. Is the proposed transaction consistent with the public interest, considering the following factors as identified in PURA § 14.101(b)?

- a. What is the reasonable value of the property, facilities, or securities to be acquired, disposed of, merged, transferred, or consolidated?
- b. Will the transaction adversely affect the health or safety of customers or employees?
- c. Will the transaction result in the transfer of jobs of citizens of this state to workers domiciled outside this state?
- d. Will the transaction result in a decline in service?

33. Is the proposed transaction consistent with the public interest, considering the following factors as identified in PURA §§ 39.262(m) and 39.915(b)?

- a. Will the transaction adversely affect the reliability of service?
- b. Will the transaction adversely affect the availability of service?
- c. Will the transaction adversely affect the cost of service?

34. If this transaction is found not to be in the public interest, how will the financial implications of the transaction be addressed to eliminate unreasonable costs in future ratemaking proceedings?

35. Will this transaction result in any benefits to Texas customers on a timely basis?

- a. What are those benefits?
- b. What is a reasonable estimate of the amount of the benefits that result from this transaction?
- c. What benefits, if any, cannot be quantified?
- d. Do the benefits of the transaction to Texas ratepayers exceed its corresponding costs and risks to those same ratepayers? How should benefits that cannot be quantified be addressed in this evaluation?

- e. What methods, if any, are necessary to ensure that ratepayers receive the benefits of this transaction?
 - f. Does the transaction do more than promise cost savings for Texas ratepayers?
 - g. Does the transaction cause Texas ratepayers to bear transaction costs unrelated to corresponding benefits to Texas ratepayers?
 - h. Do the benefits of the transaction to Texas ratepayers exceed the corresponding costs and risks to those same ratepayers over a medium- and long-term horizon?
36. Will the proposed transaction result in improvements in service to Texas ratepayers?
37. Will the proposed transaction impede electric utility competition in Texas?
- a. Will the transaction result in concentration of market power?
 - b. Should the applicants be required to provide guarantees to ensure that no cost shifting, cross subsidies, or discriminatory behavior occurs among affiliates of the applicants? If so, what guarantees should be required?
38. Should Sharyland Utilities be required to implement ring-fencing as a condition of approval? If so, what ring-fencing provisions are needed for the transaction to be in the public interest?
39. Is it reasonable and in the public interest to require the South Texas Utility to file a base-rate case no later than December 31, 2020 based on a test year ending one year after the closing of the proposed transactions? Would it be more appropriate to delay the start of the test year for three or six months after closing?
40. Is Sharyland Utilities' commitment to provide to its ratepayers bill credits based on 90% of the interest savings realized as a result of the South Texas Utility's improved credit quality and any debt issuance savings realized reasonable and in the public interest? What is the appropriate mechanism to provide these bill credits to customers?
41. What other conditions, if any, should the Commission place on the approval of the proposed transaction?

E. GS Project Entity, L.L.C. and CV Project Entity, L.L.C.

42. Are the upstream mergers of GS Project Entity, L.L.C. into Sharyland Distribution & Transmission Services and CV Project Entity, L.L.C. into Sharyland Utilities subject to Commission consideration under PURA § 14.101?
43. If so, are the proposed transactions consistent with the public interest, considering the following factors as identified in PURA § 14.101(b)?
- What is the reasonable value of the property, facilities, or securities to be acquired, disposed of, merged, transferred, or consolidated?
 - Will the transaction adversely affect the health or safety of customers or employees?
 - Will the transaction result in the transfer of jobs of citizens of this state to workers domiciled outside this state?
 - Will the transaction result in a decline in service?
44. Are the upstream mergers of GS Project Entity, L.L.C. into Sharyland Distribution & Transmission Services and CV Project Entity, L.L.C. into Sharyland Utilities subject to Commission consideration under PURA §§ 39.262(l)–(m) and 39.915?
45. If so, are the proposed transactions consistent with the public interest, considering the following factors as identified in PURA §§ 39.262(m) and 39.915(b)?
- Will the transaction adversely affect the reliability of service?
 - Will the transaction adversely affect the availability of service?
 - Will the transaction adversely affect the cost of service?
46. How, if at all, would these mergers impact the answer to any issues identified in sections V.C or V.D of this preliminary order?

F. Transfer of CCN Rights

47. Should Sharyland Utilities' and Sharyland Distribution & Transmission Services' certificate of convenience and necessity (CCN) rights be transferred and amended to authorize the North Texas Utility and the South Texas Utility to own, operate, and maintain their respective assets after the closing of the proposed transactions?
- Will the assignees of the CCN rights provide adequate service?

- b. Should the Commission prescribe any conditions to the transfer of the CCN rights?

G. Lubbock Power & Light Projects

48. How will the closing of the proposed transactions effect the pending joint CCN applications between Sharyland Utilities and Lubbock Power & Light, currently pending in Docket Nos. 48625,²⁹ 48668,³⁰ and 48909?³¹
49. How will parties ensure that any amendments to CCNs resulting from those dockets are held by the appropriate utility?
50. What other effects will the proposed transaction have on the Lubbock Power & Light projects?

H. Code of Conduct

51. Should the Commission grant Oncor a good cause exception to allow Oncor to provide operation and maintenance services to the North Texas Utility without a tariff and without making those services available to third parties?
52. Has Oncor adequately identified the scope of the operation and maintenance services they will provide to the North Texas Utility? Is there an agreement to define the scope, prices, and other aspects of the arrangement?
53. What price will Oncor charge the North Texas Utility to provide operation and maintenance services? Is that price fair and reasonable and otherwise consistent with 16 TAC § 25.272(e)(1)(B)?
54. At the closing of the proposed transactions, will Oncor hold a joint undivided interest with the South Texas Utility in any facilities currently in operation or under construction?
55. Should the Commission grant Oncor a good cause exception to allow Oncor to provide operation and maintenance services to assets in which Oncor holds a joint undivided interest

²⁹ *Joint Application of Sharyland Utilities, L.P. and the City of Lubbock, Acting by and Through Lubbock Power & Light, for a Certificate of Convenience and Necessity for the Ogallala to Abernathy 345-kV Transmission Line in Castro, Hale, and Swisher Counties*, Docket No. 48625 (pending).

³⁰ *Joint Application of Sharyland Utilities, L.P. and the City of Lubbock, Acting by and Through Lubbock Power & Light, for a Certificate of Convenience and Necessity for the Proposed Abernathy to Wadsworth 345-kV Transmission Line in Hale and Lubbock Counties*, Docket No. 48668 (pending).

³¹ *Joint Application of Sharyland Utilities, L.P. and the City of Lubbock, Acting by and Through Lubbock Power & Light, for a Certificate of Convenience and Necessity for the Proposed Wadsworth to New Oliver to Farmland 345-kV Transmission Line in Lubbock and Lynn Counties and the Proposed Southeast to New Oliver to Oliver 115-kV Transmission Line in Lubbock County, Texas*, Docket No. 48909 (pending).

with the South Texas Utility without a tariff and without making those services available to third parties?

56. If no such assets will exist at the closing of the proposed transactions, should the Commission address this issue in this proceeding?
57. Has Oncor adequately identified the scope of the operation and maintenance services they will provide to assets in which Oncor holds a joint undivided interest with the South Texas Utility? Is there an agreement to define the scope, prices, and other aspects of the arrangement?
58. What price will Oncor charge to provide operation and maintenance services to assets in which Oncor holds a joint undivided interest with the South Texas Utility? Is that price fair and reasonable and otherwise consistent with 16 TAC § 25.272(e)(1)(B)?
59. Should the Commission grant Oncor a good cause exception to allow Oncor to provide operation and maintenance services to the South Texas Utility without a tariff and without making those services available to third parties?
60. Has Oncor adequately identified the scope of the operation and maintenance services they will provide to the North Texas Utility? Is there an agreement to define the scope, prices, and other aspects of the arrangement?
61. What price will Oncor charge the South Texas Utility to provide operation and maintenance services? Is that price fair and reasonable and otherwise consistent with 16 TAC § 25.272(e)(1)(B)?
62. Based on the proposed transactions, what changes, if any, should be made to the codes of conduct of Oncor, the North Texas Utility, the South Texas Utility, or any other entity? Should this question be addressed in this docket or in a later compliance filing?
63. Should the Commission require Oncor to amend its existing code of conduct to include the North Texas Utility, the South Texas Utility, or any new affiliates resulting from the proposed transactions?
64. Should the Commission require Sharyland Utilities to amend its existing code of conduct to include the North Texas Utility or any other new affiliates resulting from the proposed transactions?

65. After the closing of the proposed transactions, will Sempra Energy, Oncor, the North Texas Utility, and the South Texas Utility be affiliates under PURA?

I. Rate-Related Issues

66. What rates should be in effect for each of the South Texas Utility and the North Texas Utility if the proposed transactions are approved?

67. What are the appropriate tariffs to implement those rates? Should tariffs be approved in this docket or in a compliance docket?

68. Will the rates paid by Texas retail and wholesale transmission ratepayers after the closing of the proposed transactions be equal to or lower than the rates that would have been paid absent the proposed transactions?

69. How does this docket affect either utility's obligations to address excess ADFIT balances resulting from the impacts of the Tax Cuts and Jobs Act?

70. How should any interim transmission cost-of-service update that is filed during the pendency of this proceeding be addressed?

71. For any currently approved interim updates filed under 16 TAC § 25.192(h) to the transmission rates of Sharyland Utilities, who will be responsible for filing a reconciliation of those rates? If any amounts included in the interim updates are found unreasonable in a future proceeding, how, and by whom, will such amounts be refunded?

72. What data retention requirements, if any, are appropriate to facilitate a future rate review?

73. What amount of synergy savings, if any, will arise from the proposed transactions? How will any such savings be passed on to ratepayers?

74. Should the joint applicants be required to provide guarantees to ensure that Texas retail and wholesale transmission rates will be equal to or lower than they would have been absent the proposed transactions?

75. What effect will the proposed transactions have on the baseline transmission investment for interim cost of service updates for the North Texas Utility and the South Texas Utility? What are the appropriate baselines for each utility? Should this issue be decided in this proceeding or in a compliance docket?

76. If the proposed transactions are approved, is it reasonable and in the public interest for Oncor to continue to book as a regulatory asset those amounts that Oncor will pay to the North Texas Utility and the South Texas Utility under their respective wholesale-distribution-substation-service tariffs and for Oncor to seek recovery of those amounts in a later proceeding?
77. Will the invested capital of the restructured Sharyland Utilities and Sharyland Distribution & Transmission Services include the amount of Sharyland Utilities' and Sharyland Distribution & Transmission Services' invested capital in transmission assets that have already been recovered in rates, *i.e.*, will the depreciated basis of those assets change when moved to the restructured utilities?
78. How will the accumulated depreciation on Sharyland Utilities' and Sharyland Distribution & Transmission Services' transmission assets be treated?
79. How will the pension and other employee benefit plans be separated and maintained for each utility going forward?
80. What is the amount of the gain on sale, if any, resulting from the proposed transfers of transmission assets and subsequent transfers of utility ownership? How should such amounts be recorded or treated for future ratemaking purposes?
81. How should the Commission address any reductions in accumulated deferred federal income taxes (ADFIT) resulting from the proposed transactions? If any current ADFIT balances would no longer exist as a result of the proposed transactions, should the Commission require the refund of any such ADFIT balance to the customers contributing to the balance before the close of the transactions?

J. Other Issues

82. What effect will the closing of the proposed transactions have on the recovery of any rate-case expenses authorized by the Commission in Docket No. 45979?³² If the Commission disallows any rate-case expenses in that docket, will that have any effect on the proposed transactions?

³² *Review of the Rate Case Expenses Incurred by Sharyland Utilities, L.P. in Docket No. 45414, Docket No. 45979 (pending).*

83. How will storm and other emergency preparation and recovery coordination be managed after the closing of the proposed transactions? Should joint applicants be required to make any commitments regarding storm and emergency preparation?
84. After the closing of the proposed transactions, will service quality and customer relations be equal to or better than current conditions? Should joint applicants be required to make any commitments regarding service quality and customer relations?
85. Are the terms of the proposed future development agreement between Oncor and the South Texas Utility reasonable and in the public interest? Should the Commission decide this issue here or in a future proceeding related to specific facilities?
86. Have joint applicants coordinated with ERCOT in order to effectuate the proposed transactions? Is ERCOT prepared to manage the change in ownership of transmission assets resulting from the proposed transactions?

This list of issues is not intended to be exhaustive. The parties are free to raise and address any issues relevant in this docket that they deem necessary, subject to any limitations imposed by the Commission in future orders issued in this docket. The Commission reserves the right to identify any additional issues or areas that must be addressed.

VI. Issue Not to be Addressed

The Commission identifies the following issues not to be addressed in this docket:

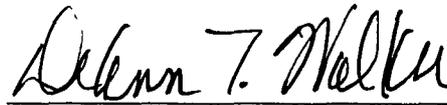
- 1. The prudence of investments in any asset will not be addressed in this docket; those issues are reserved for a future rate case.*

VII. Effect of Preliminary Order

This Order is preliminary in nature and is entered without prejudice to any party expressing views contrary to this Order before the Commission at hearing. The Commission, upon its own motion or upon the motion of any party, may deviate from this Order when circumstances dictate that it is reasonable to do so. The Commission will not address whether this Order should be modified except upon its own motion. Furthermore, this Order is not subject to motions for rehearing or reconsideration.

Signed at Austin, Texas the 20th day of February 2019.

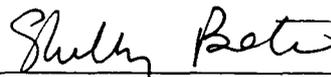
PUBLIC UTILITY COMMISSION OF TEXAS



DEANN T. WALKER, CHAIRMAN



ARTHUR C. D'ANDREA, COMMISSIONER



SHELLY BOTKIN, COMMISSIONER

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