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Addendum StartPage: 0

Table of Contents

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**
Washington, D.C. 20549

FORM 10-K

☒ **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the fiscal year ended December 31, 2008

— OR —

☐ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

Commission File Number 333-100240

Oncor Electric Delivery Company LLC
(Exact name of registrant as specified in its charter)

Delaware
(State of Organization)

75-2967830
(I.R.S. Employer Identification No.)

1601 Bryan Street, Dallas, TX 75201
(Address of principal executive offices)(Zip Code)

(214) 486-2000
(Registrant's telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act: None

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ☐ No ☒

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes ☒ No ☐

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☐ No ☒

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ☒

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See definitions of "large accelerated filer", "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer ☐

Accelerated filer ☐

Non-Accelerated filer ☒

Smaller reporting company ☐

Indicate by check mark if the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ☐ No ☒

Aggregate market value of Oncor Electric Delivery Company LLC common membership interests held by non-affiliates: None

As of February 27, 2009, 80.033% of the outstanding membership interests in Oncor Electric Delivery Company LLC (Oncor) were directly held by Oncor Electric Delivery Holdings Company LLC and indirectly by Energy Future Holdings Corp., 19.75% of the outstanding membership interests were held by Texas Transmission Investment LLC and 0.217% of the outstanding membership interests were indirectly held by certain members of Oncor's management. None of the membership interests are publicly traded.

DOCUMENTS INCORPORATED BY REFERENCE - None

Table of Contents**TABLE OF CONTENTS**

	<u>PAGE</u>
<u>GLOSSARY</u>	<u>ii</u>
<u>PART I</u>	
Items 1 and 2. <u>BUSINESS AND PROPERTIES</u>	1
Item 1A. <u>RISK FACTORS</u>	6
Item 1B. <u>UNRESOLVED STAFF COMMENTS</u>	11
Item 3. <u>LEGAL PROCEEDINGS</u>	11
Item 4. <u>SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS</u>	11
<u>PART II</u>	
Item 5. <u>MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED EQUITY HOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES</u>	12
Item 6. <u>SELECTED FINANCIAL DATA</u>	13
Item 7. <u>MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS</u>	15
Item 7A. <u>QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK</u>	37
Item 8. <u>FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA</u>	40
Item 9. <u>CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE</u>	72
Item 9A(T). <u>CONTROLS AND PROCEDURES</u>	72
Item 9B. <u>OTHER INFORMATION</u>	72
<u>PART III</u>	
Item 10. <u>DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE</u>	73
Item 11. <u>EXECUTIVE COMPENSATION</u>	81
Item 12. <u>SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED EQUITY HOLDER MATTERS</u>	118
Item 13. <u>CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE</u>	122
Item 14. <u>PRINCIPAL ACCOUNTANT FEES AND SERVICES</u>	128
<u>PART IV</u>	
Item 15. <u>EXHIBITS AND FINANCIAL STATEMENT SCHEDULES</u>	131

Oncor Electric Delivery Company LLC's annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and any amendments to those reports are made available to the public, free of charge, on the Oncor Electric Delivery Company LLC (Oncor) website at <http://www.oncor.com>, as soon as reasonably practicable after they have been filed with or furnished to the Securities and Exchange Commission. Oncor will provide copies of current reports not posted on the website upon request. The information on Oncor's website shall not be deemed a part of, or incorporated by reference into, this report on Form 10-K. Readers should not rely on or assume the accuracy of any representation or warranty in any agreement that Oncor has filed as an exhibit to this Form 10-K because such representation or warranty may be subject to exceptions and qualifications contained in separate disclosure schedules, may represent the parties' risk allocation in the particular transaction, may be qualified by materiality standards that differ from what may be viewed as material for securities law purposes or may no longer continue to be true as of any given date.

This Form 10-K and other Securities and Exchange Commission filings of Oncor and its subsidiary occasionally make references to Oncor when describing actions, rights or obligations of its subsidiary. These references reflect the fact that the subsidiary is consolidated with Oncor for financial reporting purposes. However, these references should not be interpreted to imply that Oncor is actually undertaking the action or has the rights or obligations of its subsidiary or that the subsidiary company is undertaking an action or has the rights or obligations of its parent company or of any other affiliate.

Table of Contents**GLOSSARY**

When the following terms and abbreviations appear in the text of this report, they have the meanings indicated below.

1999 Restructuring Legislation	Texas Electric Choice Plan, the legislation that restructured the electric utility industry in Texas to provide for retail competition
Capgemini	Capgemini Energy LP, a subsidiary of Cap Gemini North America Inc. that provides business process support services to Oncor
CREZ	Competitive Renewable Energy Zones
EFC Holdings	Refers to Energy Future Competitive Holdings Company, a direct, wholly-owned subsidiary of EFH Corp. and the direct parent of TCEH.
EFH Corp.	Refers to Energy Future Holdings Corp., a holding company, and/or its subsidiaries, depending on context. Its major subsidiaries include Oncor and TCEH.
EPA	US Environmental Protection Agency
ERCOT	Electric Reliability Council of Texas, the independent system operator and the regional coordinator of the various electricity systems within Texas
ERISA	Employee Retirement Income Security Act of 1974, as amended
FASB	Financial Accounting Standards Board, the designated organization in the private sector for establishing standards for financial accounting and reporting
FERC	US Federal Energy Regulatory Commission
FIN	Financial Accounting Standards Board Interpretation
FIN 48	FIN No. 48 (As Amended), "Accounting for Uncertainty in Income Taxes"
Fitch	Fitch Ratings, Ltd. (a credit rating agency)
FSP	FASB Staff Position
FSP FIN 48-1	FASB Staff Position FIN 48-1, "Definition of Settlement in FASB Interpretation No. 48"
FSP SFAS 132(R)	FSP SFAS No. 132(R)-1, "Employers' Disclosures about Postretirement Benefit Plan Assets"
GAAP	generally accepted accounting principles
GWh	gigawatt-hours
Intermediate Holding	Refers to Energy Future Intermediate Holding Company LLC, a direct, wholly-owned subsidiary of EFH Corp. and the direct parent of Oncor Holdings.
Investment LLC	Refers to Oncor Management Investment LLC, a Delaware limited liability company and minority interest owner of Oncor, whose managing member is Oncor and whose Class B Interests are owned by officers, directors and key employees of Oncor.
IRS	US Internal Revenue Service
kV	kilovolts
kWh	kilowatt-hours
LIBOR	London Interbank Offered Rate. An interest rate at which banks can borrow funds, in marketable size, from other banks in the London interbank market.

Table of Contents

Limited Liability Company Agreement	The Second Amended and Restated Limited Liability Company Agreement of Oncor Electric Delivery Company LLC, dated as of November 5, 2008, by and among Oncor Holdings, Texas Transmission Investment LLC and Oncor Management Investment LLC, as amended.
Luminant	Refers to wholly-owned subsidiaries of TCEH engaged in competitive market activities consisting of electricity generation, development and construction of new generation facilities, wholesale energy sales and purchases as well as commodity risk management and trading activities, all largely in Texas.
Merger	The transaction referred to in the Merger Agreement (defined immediately below) that was completed on October 10, 2007.
Merger Agreement	Agreement and Plan of Merger, dated February 25, 2007, under which Texas Holdings agreed to acquire EFH Corp.
Merger Sub	Texas Energy Future Merger Sub Corp, a Texas corporation and a wholly-owned subsidiary of Texas Holdings that was merged into EFH Corp. on October 10, 2007
Moody's	Moody's Investors Services, Inc. (a credit rating agency)
MW	megawatts
NERC	North American Electric Reliability Corporation
Oncor	Refers to Oncor Electric Delivery Company LLC, a direct subsidiary of Oncor Holdings, and/or its wholly-owned consolidated bankruptcy-remote financing subsidiary, Oncor Electric Delivery Transition Bond Company LLC, depending on context.
Oncor Holdings	Refers to Oncor Electric Delivery Holdings Company LLC, a direct, wholly-owned subsidiary of Intermediate Holding and a direct parent of Oncor.
Oncor Ring-Fenced Entities	Refers to Oncor Holdings and its direct and indirect subsidiaries.
OPEB	other postretirement employee benefit
PUCT	Public Utility Commission of Texas
PURA	Texas Public Utility Regulatory Act
Purchase accounting	The purchase method of accounting for a business combination as prescribed by SFAS 141 whereby the cost or "purchase price" of a business combination, including the amount paid for the equity and direct transaction costs are allocated to identifiable assets and liabilities (including intangible assets) based upon their fair values. The excess of the purchase price over the fair values of assets and liabilities is recorded as goodwill.
REP	retail electric provider
S&P	Standard & Poor's Ratings Services, a division of the McGraw-Hill Companies, Inc. (a credit rating agency)
SARs	Stock Appreciation Rights
SARs Plan	Refers to the Oncor Electric Delivery Company Stock Appreciation Rights Plan
SEC	US Securities and Exchange Commission
Securities Act	Securities Act of 1933, as amended

Table of Contents

SFAS	Statement of Financial Accounting Standards issued by the FASB
SFAS 5	SFAS No. 5, "Accounting for Contingencies"
SFAS 71	SFAS No. 71, "Accounting for the Effect of Certain Types of Regulation"
SFAS 87	SFAS No. 87, "Employers' Accounting for Pensions"
SFAS 106	SFAS No. 106, "Employers' Accounting for Postretirement Benefits Other Than Pensions"
SFAS 109	SFAS No. 109, "Accounting for Income Taxes"
SFAS 123R	SFAS No. 123 (revised 2004), "Share-Based Payment"
SFAS 132(R)	SFAS No. 132 (revised 2003), "Employers' Disclosures About Pensions and Other Postretirement Benefits"
SFAS 133	SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities" as amended and interpreted
SFAS 140	SFAS No. 140, "Accounting for Transfers and Servicing of Financial Assets and Extinguishment of Liabilities, a replacement of FASB Statement No. 125"
SFAS 141	SFAS No. 141, "Business Combinations"
SFAS 142	SFAS No. 142, "Goodwill and Other Intangible Assets"
SFAS 144	SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets"
SFAS 157	SFAS No. 157, "Fair Value Measurements"
SFAS 158	SFAS No. 158, "Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans"
SFAS 160	SFAS No. 160, "Noncontrolling Interests in Consolidated Financial Statements – an amendment of ARB No. 51"
Sponsor Group	Collectively, the investment funds affiliated with Kohlberg Kravis Roberts & Co. L.P., TPG Capital, L.P. and GS Capital Partners, an affiliate of Goldman Sachs & Co. (See Texas Holdings below.)
TCEH	Refers to Texas Competitive Electric Holdings Company LLC, a direct, wholly-owned subsidiary of EFC Holdings and an indirect, wholly-owned subsidiary of EFH Corp., and/or its subsidiaries, depending on context.
TCEQ	Texas Commission on Environmental Quality
Texas Holdings	Refers to Texas Energy Future Holdings Limited Partnership, a Delaware limited partnership controlled by the Sponsor Group, that is the direct parent of EFH Corp.
Texas Holdings Group	Refers to Texas Holdings and its direct and indirect subsidiaries other than the Oncor Ring-Fenced Entities.
Texas Transmission	Refers to Texas Transmission Investment LLC, a Delaware limited liability company that purchased a 19.75% equity interest in Oncor in November 2008.
TXU Energy	Refers to TXU Energy Retail Company LLC, a direct, wholly-owned subsidiary of TCEH engaged in the retail sale of electricity to residential and business customers. TXU Energy is a REP in competitive areas of ERCOT.
US	United States of America

Items 1. and 2. BUSINESS AND PROPERTIES

See Glossary on page ii for a definition of terms and abbreviations.

Oncor Electric Delivery Company LLC Business and Strategy

Oncor is a regulated electricity transmission and distribution company that provides the essential service of delivering electricity safely, reliably and economically to end-use consumers through its distribution systems, as well as providing transmission grid connections to merchant generation plants and interconnections to other transmission grids in Texas. Oncor is a direct subsidiary of Oncor Holdings, which is a direct, wholly-owned subsidiary of Intermediate Holding, a direct, wholly-owned subsidiary of EFH Corp. Oncor Holdings owns 80.033% of Oncor's membership interests, Texas Transmission owns 19.75% of Oncor's membership interests and certain members of Oncor's management indirectly beneficially own the remaining membership interests of Oncor. Oncor is a limited liability company organized under the laws of the State of Delaware, formed in 2007 as the successor entity to Oncor Electric Delivery Company, formerly known as TXU Electric Delivery Company, a corporation formed under the laws of the State of Texas in 2001.

Oncor's transmission and distribution assets are located principally in the north-central, eastern and western parts of Texas. This territory has an estimated population in excess of seven million, about one-third of the population of Texas, and comprises 92 counties and over 370 incorporated municipalities, including Dallas/Fort Worth and surrounding suburbs, as well as Waco, Wichita Falls, Odessa, Midland, Tyler and Killeen. Oncor is not a seller of electricity, nor does it purchase electricity for resale. It provides transmission services to other electricity distribution companies, cooperatives and municipalities. It provides distribution services to REPs, which sell electricity to retail customers. Most of Oncor's power lines have been constructed over lands of others pursuant to easements or along public highways, streets and rights-of-way as permitted by law. Oncor's transmission and distribution rates are regulated by the PUCT. Oncor is managed as an integrated business; consequently, there are no reportable segments.

Oncor operates the largest transmission and distribution system in Texas, delivering electricity to approximately three million homes and businesses and operating more than 117,000 miles of transmission and distribution lines in Texas. At December 31, 2008, Oncor had approximately 3,600 full-time employees, including approximately 650 in a collective bargaining unit.

EFH Corp. and Oncor have implemented certain structural and operational "ring-fencing" measures based on commitments made by Texas Holdings and Oncor to the PUCT that are intended to further separate Oncor from Texas Holdings and its other subsidiaries. These measures also serve to mitigate Oncor's credit exposure to those entities and to reduce the risk that the assets and liabilities of Oncor would be substantively consolidated with the assets and liabilities of Texas Holdings or any of its other subsidiaries in the event of a bankruptcy of one or more of those entities. See Note 1 to Financial Statements for a description of the material features of these "ring-fencing" measures.

With the closing of the Merger, on October 10, 2007, EFH Corp. became a wholly-owned subsidiary of Texas Holdings, a Delaware limited partnership controlled by the Sponsor Group. On November 5, 2008, Oncor sold equity interests resulting in an unaffiliated investor group acquiring a 19.75% minority stake in Oncor through Texas Transmission and an entity owned by certain members of Oncor's management acquiring a 0.21% minority stake in Oncor. See Note 1 to Financial Statements for additional details regarding the sale of the minority interests.

Table of Contents

Oncor's Market (ERCOT statistics below were derived from information published by ERCOT)

Oncor operates within the ERCOT market, which represents approximately 85% of electricity consumption in Texas. ERCOT is the regional reliability coordinating organization for member electricity systems in Texas and the system operator of the interconnected transmission grid for those systems. ERCOT is responsible for ensuring reliability, adequacy and security of the electric systems as well as nondiscriminatory access to transmission service by all wholesale market participants in the ERCOT region. ERCOT's membership consists of more than 300 corporate and associate members, including electric cooperatives, municipal power agencies, independent generators, independent power marketers, transmission service providers and distribution services providers, independent REPs and consumers.

In 2008, hourly demand peaked at 62,174 MW as compared to the record hourly peak demand of 62,339 MW in 2006. The ERCOT market has limited interconnections to other markets in the US, which currently limits potential imports into and exports out of the ERCOT market to 1,106 MW of generation capacity (or approximately 2% of peak demand). In addition, wholesale transactions within the ERCOT market are generally not subject to regulation by the FERC.

The ERCOT market operates under the reliability standards set by NERC. The PUCT has primary jurisdiction over the ERCOT market to ensure the adequacy and reliability of power supply across Texas's main interconnected transmission grid. Oncor, along with other owners of transmission and distribution facilities in Texas, assists the ERCOT independent system operator in its operations. Oncor has planning, design, construction, operation and maintenance responsibility for the portion of the transmission grid and for the load-serving substations it owns, primarily within its certificated area. Oncor participates with the ERCOT independent system operator and other ERCOT utilities to plan, design, obtain regulatory approval for and construct new transmission lines necessary to meet reliability needs, increase bulk power transfer capability to remove existing constraints and interconnect generation on the ERCOT transmission grid.

Oncor's Strategies

Oncor focuses on delivering electricity in a safe and reliable manner, minimizing service interruptions and investing in its transmission and distribution infrastructure to serve its growing customer base.

Oncor believes building and leveraging upon opportunities to scale its operating advantage and technology programs enables Oncor to create value by eliminating duplicative costs, efficiently managing supply costs, and building and standardizing distinctive process expertise over a larger grid. Scale also allows Oncor to take part in large capital investments in its transmission and distribution system, with a smaller fraction of overall capital at risk and with an enhanced ability to streamline costs. Oncor's growth strategies are to invest in technology upgrades, including advanced metering systems, and to construct new transmission and distribution facilities to meet the needs of the growing ERCOT market. Oncor and other transmission and distribution businesses in ERCOT benefit from regulatory capital recovery mechanisms known as "capital trackers" that Oncor believes enable adequate and timely recovery of transmission investments and advanced metering investments through its regulated rates.

Oncor's technology upgrade initiatives include development of a modernized grid through the replacement of existing meters with advanced digital metering equipment and development of advanced digital communication, data management, real-time monitoring and outage detection capabilities. This modernized grid is expected to drive electricity service reliability improvements and provide the potential for additional products and services from REPs that will enable businesses and consumers to better manage their electricity usage and costs. Oncor installed approximately 5,000 advanced meters in a pilot program in the second quarter of 2008, and began full deployment of advanced meters in the fourth quarter of 2008 as part of a plan to have all of its approximately three million meters converted by 2012. The advanced meters can be read automatically, rather than by a meter reader physically visiting the location of each meter. Advanced meters are expected to also eventually provide automated demand side management, which allows consumers to monitor the amount of electricity they are consuming and adjust their electricity consumption habits. In addition to the potential energy efficiencies from advanced metering, Oncor expects to invest \$300 million, which includes \$100 million in excess of regulatory requirements, over the five years ending in 2012 in programs designed to improve customer electricity demand efficiencies. Oncor invested \$58 million in these programs in 2008.

Table of Contents

Oncor filed a rate surcharge case in May 2008 (Docket No. 35718) to recover estimated future investments for advanced metering deployment. A settlement was reached with the majority of the parties to the case in August 2008. An order approving the settlement was issued by the PUCT in August 2008, and the order became final in September 2008. The surcharge became effective with Oncor's January 2009 billings. See Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations — Regulation and Rates".

Oncor's Operations

Performance — Oncor achieved market-leading electricity delivery performance in six out of seven key PUCT market metrics in 2008. These metrics measure the success of transmission and distribution companies in facilitating customer transactions in the competitive Texas electricity market. In July 2007, the PUCT established new performance standards, and Oncor has implemented a plan seeking to achieve compliance with these standards during 2009.

Investing in Infrastructure and Technology — In 2008, Oncor invested over \$882 million in its network to construct, rebuild and upgrade transmission lines and associated facilities, to extend the distribution infrastructure, and to pursue certain initiatives in infrastructure maintenance and information technology. Reflecting its commitment to infrastructure, in September 2008, Oncor and several other ERCOT utilities filed with the PUCT a plan to participate in the construction of transmission improvements designed to interconnect existing and future renewable energy facilities to transmit electricity from Competitive Renewable Energy Zones (CREZ) identified by the PUCT. This plan included the joint parties' plans to construct and operate all of the CREZ transmission facilities (CREZ Transmission Plan). Several other parties, including ERCOT and non-ERCOT entities, also filed CREZ Transmission Plans. Hearings on the CREZ Transmission Plan proposals were held in December 2008, and at a January 2009 open meeting, the PUCT assigned approximately \$1.3 billion of CREZ construction projects to Oncor. Oncor anticipates that a written order reflecting the PUCT's decisions will be entered during the first quarter of 2009. The cost estimates for the CREZ construction projects are based upon analyses prepared by ERCOT. See Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations — Regulation and Rates."

In 2008, Oncor acquired a vendor's existing broadband over powerline (BPL)-based "Smart Grid" network assets in Oncor's service territory for \$90 million in cash. These network assets include BPL equipment and technology such as fiber optics, embedded sensors and software analytics that are intended to enable Oncor to better monitor its electricity distribution network over up to one-sixth of its service territory. The network assets also included certain finished goods inventory and additional components. As part of the transaction, Oncor agreed to purchase software licenses and maintenance and operation services for a three-year period for approximately \$35 million, including \$25 million paid at the closing of the transaction. In addition, Oncor may, at its option, purchase additional equipment and utilize additional services from the vendor that would allow Oncor to expand the BPL network to up to one-half of its service territory.

In a stipulation with several parties that was approved by the PUCT (as discussed in Note 4 to Financial Statements), Oncor committed to a variety of actions, including minimum capital spending of \$3.6 billion over the five-year period ending December 31, 2012, subject to certain defined conditions. This spending does not include the CREZ facilities.

Electricity Transmission — Oncor's electricity transmission business is responsible for the safe and reliable operations of its transmission network and substations. These responsibilities consist of the construction and maintenance of transmission facilities and substations and the monitoring, controlling and dispatching of high-voltage electricity over Oncor's transmission facilities in coordination with ERCOT.

Oncor is a member of ERCOT, and its transmission business actively assists the operations of ERCOT and market participants. Through its transmission business, Oncor participates with ERCOT and other member utilities to plan, design, construct and operate new transmission lines, with regulatory approval, necessary to maintain reliability, interconnect to merchant generation plants, increase bulk power transfer capability and minimize limitations and constraints on the ERCOT transmission grid.

Transmission revenues are provided under tariffs approved by either the PUCT or, to a small degree related to an interconnection to other markets, the FERC. Network transmission revenues compensate Oncor for delivery of electricity over transmission facilities operating at 60 kV and above. Other services offered by Oncor through its transmission business include, but are not limited to: system impact studies, facilities studies, transformation service and maintenance of transformer equipment, substations and transmission lines owned by other parties.

Table of Contents

Provisions of the 1999 Restructuring Legislation allow Oncor to annually update its transmission rates to reflect changes in invested capital. These provisions encourage investment in the transmission system to help ensure reliability and efficiency by allowing for timely recovery of and return on new transmission investments.

Oncor's transmission facilities include 5,043 circuit miles of 345-kV transmission lines and 9,862 circuit miles of 138- and 69-kV transmission lines. Sixty-three generation plants totaling 37,691 MW are directly connected to Oncor's transmission system, and 277 transmission stations and 697 distribution substations are served from Oncor's transmission system.

Oncor's transmission facilities have the following connections to other transmission grids in Texas:

Grid Connections	Number of Interconnected Lines		
	345kV	138kV	69kV
Centerpoint Energy Inc.	8	—	—
American Electric Power Company, Inc (a)	4	7	12
Lower Colorado River Authority	6	20	3
Texas Municipal Power Agency	8	9	—
Texas New Mexico Power	2	9	11
Brazos Electric Power Cooperative	4	99	21
Rayburn Country Electric Cooperative	—	31	7
City of Georgetown	—	2	—
Tex-La Electric Cooperative	—	11	1
Other small systems operating wholly within Texas	—	3	2

(a) One of the 345-kV lines is an asynchronous high-voltage direct current connection with the Southwest Power Pool.

Electricity Distribution — Oncor's electricity distribution business is responsible for the overall safe and efficient operation of distribution facilities, including electricity delivery, power quality and system reliability. These responsibilities consist of the ownership, management, construction, maintenance and operation of the distribution system within Oncor's certificated service area. Oncor's distribution system receives electricity from the transmission system through substations and distributes electricity to end-users and wholesale customers through approximately 3,080 distribution feeders.

The Oncor distribution system includes over 3.1 million points of delivery. Over the past five years, the number of Oncor's distribution system points of delivery served, excluding lighting sites, grew an average of approximately 1.5% per year, adding approximately 33,500 points of delivery in 2008.

The Oncor distribution system consists of 56,266 miles of overhead primary conductors, 21,639 miles of overhead secondary and street light conductors, 15,277 miles of underground primary conductors and 9,497 miles of underground secondary and street light conductors. The majority of the distribution system operates at 25-kV and 12.5-kV.

Customers — Oncor's transmission customers consist of municipalities, electric cooperatives and other distribution companies. Oncor's distribution customers consist of more than 65 REPs in Oncor's certificated service area, including TCEH. Distribution revenues from TCEH represented 39% of Oncor's total revenues for 2008, and revenues from two subsidiaries of Reliant Energy, Inc., each of which is a non-affiliated REP, represented 16% of Oncor's total revenues for 2008. No other customer represented more than 10% of Oncor's total operating revenues. The retail customers who purchase and consume electricity delivered by Oncor are free to choose their electricity supplier from REPs who compete for their business.

Seasonality — A significant portion of Oncor's revenues is derived from rates that Oncor collects from REPs based on the amount of electricity it distributes on behalf of REPs. As a result, the revenues and results of operations of Oncor are subject to seasonality, weather conditions and other changes in electricity usage, with revenues being higher during the warmer months.

Table of Contents

Regulation and Rates — As its operations are wholly within Texas, Oncor believes that it is not a public utility as defined in the Federal Power Act and has been advised by its legal counsel that it is not subject to general regulation under this act.

The PUCT has original jurisdiction over transmission and distribution rates and services in unincorporated areas and in those municipalities that have ceded original jurisdiction to the PUCT and has exclusive appellate jurisdiction to review the rate and service orders and ordinances of municipalities. Generally, PURA prohibits the collection of any rates or charges by a public utility (as defined by PURA) that does not have the prior approval of the appropriate regulatory authority (PUCT or municipality with original jurisdiction). In accordance with a stipulation approved by the PUCT, Oncor filed a rate case with the PUCT (Docket No. 35717) in June 2008, based on a test year ended December 31, 2007 as discussed in Item 7, "Management's Discussion and Analysis of Financial Condition – Regulation and Rates."

At the state level, PURA, as amended, requires owners or operators of transmission facilities to provide open-access wholesale transmission services to third parties at rates and terms that are nondiscriminatory and comparable to the rates and terms of the utility's own use of its system. The PUCT has adopted rules implementing the state open-access requirements for utilities that are subject to the PUCT's jurisdiction over transmission services, such as Oncor.

Securitization Bonds — Oncor's consolidated financial statements include its wholly-owned, bankruptcy-remote financing subsidiary, Oncor Electric Delivery Transition Bond Company LLC. This financing subsidiary was organized for the limited purpose of issuing specified transition bonds in 2003 and 2004. Oncor Electric Delivery Transition Bond Company LLC issued \$1.3 billion principal amount of securitization (transition) bonds to recover generation-related regulatory asset stranded costs and other qualified costs under an order issued by the PUCT in 2002.

Environmental Regulations and Related Considerations

Water

The TCEQ has jurisdiction over water discharges (including storm water) from facilities in Texas. Facilities of Oncor are presently in material compliance with applicable state and federal requirements relating to discharge of pollutants into the water. Oncor holds all required waste water discharge permits from the TCEQ for facilities in operation and has applied for or obtained necessary permits for facilities under construction. Oncor believes it can satisfy the requirements necessary to obtain any required permits or renewals. Recent changes to federal rules pertaining to Spill Prevention, Control and Countermeasure (SPCC) plans for oil-filled electrical equipment and bulk storage facilities for oil will require updating of certain facilities. Oncor has determined that SPCC plans will be required for certain substations, work centers and distribution systems by July 1, 2009, and it is currently compiling data for development of these plans.

Solid Waste

Treatment, storage and disposal of solid waste and hazardous waste are regulated at the state level under the Texas Solid Waste Disposal Act and at the federal level under the Resource Conservation and Recovery Act of 1976, as amended, and the Toxic Substances Control Act. The EPA has issued regulations under the Resource Conservation and Recovery Act of 1976 and the Toxic Substances Control Act, and the TCEQ has issued regulations under the Texas Solid Waste Disposal Act applicable to facilities of Oncor. Oncor is in compliance with applicable solid and hazardous waste regulations.

Environmental Capital Expenditures

Oncor's capital expenditures for environmental matters were \$8 million in 2008 and are expected to be approximately \$8 million in 2009. Oncor expects to invest \$300 million, which includes \$100 million in excess of regulatory requirements, over the five years ending in 2012 in programs designed to increase customer electricity demand efficiencies. Oncor invested \$58 million in these programs in 2008.

Table of Contents

Item 1A. RISK FACTORS

Some important factors, in addition to others specifically addressed in Management's Discussion and Analysis of Financial Condition and Results of Operations, that could have a material negative impact on Oncor's operations, financial results and financial condition, or could cause Oncor's actual results or outcomes to differ materially from any projected outcome contained in any forward-looking statement in this report, include:

Risks Relating to Oncor's Businesses

Oncor's businesses are subject to ongoing complex governmental regulations and legislation that have impacted, and may in the future impact, its business and/or results of operations.

Oncor's businesses operate in changing market environments influenced by various state and federal legislative and regulatory initiatives regarding the restructuring of the energy industry. Oncor will need to continually adapt to these changes.

Oncor's businesses are subject to changes in state and federal laws (including PURA, the Federal Power Act, the Public Utility Regulatory Policies Act of 1978 and the Energy Policy Act of 2005), changing governmental policy and regulatory actions (including those of the PUCT, the Electric Reliability Organization, the Texas Regional Entity, the TCEQ, the FERC and the EPA) and the rules, guidelines and protocols of ERCOT with respect to matters including, but not limited to, market structure and design, construction and operation of transmission facilities, acquisition, disposal, depreciation and amortization of regulated assets and facilities, recovery of costs and investments, return on invested capital and environmental matters. Changes in, revisions to, or reinterpretations of existing laws and regulations may have an adverse effect on Oncor's businesses.

Although the 2007 Texas Legislative Session closed without passage of legislation that significantly negatively impacted Oncor's businesses, the legislature did adopt legislation that likely requires prior PUCT approval for any future direct or indirect disposition of Oncor, and ensures that the PUCT will have authority to enforce commitments made in a filing on or after May 1, 2007 under PURA Section 14.101 (such as the filing made by Texas Holdings and Oncor on April 25, 2007). There can be no assurance that future action of the Texas Legislature will not result in legislation that could have a material adverse effect on Oncor and its financial prospects.

The litigation environment in which Oncor operates poses a significant risk to its businesses.

Oncor is involved in the ordinary course of business in a number of lawsuits involving employment, commercial, environmental and injuries and damages issues, among other matters. Judges and juries in the State of Texas have demonstrated a willingness to grant large verdicts, including punitive damages, to plaintiffs in personal injury, property damage and business tort cases. Oncor uses legal and appropriate means to contest litigation threatened or filed against it, but the litigation environment in the state of Texas poses a significant business risk.

Oncor's revenues are concentrated in a small number of customers, and any delay or default in payment could adversely affect its cash flows, financial condition and results of operations.

Oncor's revenues from the distribution of electricity are collected from more than 65 REPs, including TXU Energy, that sell the electricity Oncor distributes to their customers. Adverse economic conditions, structural problems in the market served by ERCOT or financial difficulties of one or more REPs could impair the ability of these retail providers to pay for Oncor's services or could cause them to delay such payments. Oncor depends on these REPs to timely remit these revenues to Oncor. Oncor could experience delays or defaults in payment from these REPs, which could adversely affect Oncor's cash flows, financial condition and results of operations.

Table of Contents

Disruptions at power generation facilities owned by third parties could interrupt Oncor's sales of transmission and distribution services.

The electricity Oncor transmits and distributes to customers of REPs is obtained by the REPs from electricity generation facilities. Oncor does not own or operate any generation facilities. If generation is disrupted or if generation capacity is inadequate, Oncor's sales of transmission and distribution services may be diminished or interrupted, and its results of operations, financial condition and cash flows may be adversely affected.

Oncor's revenues and results of operations are seasonal.

A significant portion of Oncor's revenues is derived from rates that Oncor collects from each REP based on the amount of electricity Oncor distributes on behalf of such REP. Sales of electricity to residential and commercial customers are influenced by temperature fluctuations. Thus, Oncor's revenues and results of operations are subject to seasonality, weather conditions and other changes in electricity usage, with revenues being higher during the warmer months.

The operation and maintenance of electricity delivery facilities involves significant risks that could adversely affect Oncor's results of operations and financial condition.

The operation and maintenance of delivery facilities involves many risks, including breakdown or failure of facilities, lack of sufficient capital to maintain the facilities, impact of unusual or adverse weather conditions or other natural events, as well as the risk of performance below expected levels of efficiency or reliability, the occurrence of any of which could result in lost revenues and/or increased expenses that may not be recoverable through rates. A significant number of Oncor's facilities were constructed many years ago. In particular, older transmission and distribution equipment, even if maintained in accordance with good engineering practices, may require significant capital expenditures to keep operating at peak efficiency or reliability. The risk of increased maintenance and capital expenditures arises from damage to facilities due to storms, natural disasters, wars, terrorist acts and other catastrophic events. Further, Oncor's ability to successfully and timely complete capital improvements to existing facilities or other capital projects is contingent upon many variables and subject to substantial risks. Should any such efforts be unsuccessful, Oncor could be subject to additional costs that may not be recoverable through rates and/or the write-off of its investment in the project or improvement.

Insurance, warranties or performance guarantees may not cover all or any of the lost revenues or increased expenses. Likewise, Oncor's ability to obtain insurance, and the cost of and coverage provided by such insurance, could be affected by events outside Oncor's control.

The rates of Oncor's electric delivery business are subject to regulatory review, and may be reduced below current levels, which could adversely impact Oncor's financial condition and results of operation.

The rates charged by Oncor are regulated by the PUCT and certain cities and are subject to cost-of-service regulation and annual earnings oversight. This regulatory treatment does not provide any assurance as to achievement of earnings levels. Oncor's rates are regulated based on an analysis of Oncor's costs and capital structure, as reviewed and approved in a regulatory proceeding. While rate regulation is premised on the full recovery of prudently incurred costs and a reasonable rate of return on invested capital, there can be no assurance that the PUCT will judge all of Oncor's costs to have been prudently incurred, that the PUCT will not reduce the amount of invested capital included in the capital structure that Oncor's rates are based upon, or that the regulatory process in which rates are determined will always result in rates that will produce full recovery of Oncor's costs, including regulatory assets reported in the balance sheet, and the return on invested capital allowed by the PUCT.

In June 2008, Oncor filed a general case (Docket No. 35717) for rate review with the PUCT and 204 cities. If approved as requested, this review would result in an aggregate annual rate increase of approximately \$253 million. A hearing on the merits concluded in February 2009. Resolution of this proposed increase is expected to occur in summer 2009. Upon such resolution, any resulting rate changes will commence. Oncor cannot predict the outcome of this or any rate case or its effect on Oncor's results of operations or cash flows.

Table of Contents

In addition, in connection with the Merger, Oncor has made several commitments to the PUCT regarding its rates. For example, Oncor committed that it will, in rate cases after its 2008 general rate case through proceedings initiated prior to December 31, 2012, support a cost of debt that will be based on the then-current cost of debt of electric utilities with investment grade credit ratings equal to Oncor's ratings as of October 1, 2007. As a result, Oncor may not be able to recover debt costs above its cost of debt prior to the Merger.

While Oncor believes its rates are just and reasonable, it cannot predict the results of any rate case. Any adverse regulatory ruling, including reductions in rates, could have an adverse effect on Oncor's business and results of operations.

Oncor's capital deployment program may not be executed as planned, which could adversely impact its financial condition and results of operations.

There can be no guarantee that the execution of Oncor's capital deployment program for its electricity delivery facilities will be successful and there can be no assurance that the capital investments Oncor intends to make in connection with its electricity delivery business will produce the desired reductions in cost and improvements to service and reliability. Furthermore, there can be no guarantee that Oncor's capital investments, including the investment of approximately \$1.3 billion (based on ERCOT cost estimates for CREZ construction projects) to construct CREZ-related transmission lines and facilities pursuant to the construction assignment awarded to Oncor at a January 2009 PUCT open meeting, will ultimately be recoverable through rates or, if recovered, that they will be recovered on a timely basis. With the award, it is likely Oncor will incur additional debt. In addition, Oncor may incur additional debt in connection with other investments in infrastructure or technology. For more information regarding the limitation on recovering the value of investments using rates, see Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations — Key Risks and Challenges".

Ongoing performance improvement initiatives may not achieve desired cost reductions and may instead result in significant additional costs if unsuccessful. In addition, Oncor may incur significant transition costs and/or experience significant operational disruptions in connection with the termination of its outsourcing arrangement with Capgemini.

The implementation of performance improvement initiatives identified by management may not produce the desired reduction in costs and if unsuccessful, may instead result in significant additional costs as well as significant disruptions in Oncor's operations due to employee displacements and the rapid pace of changes to organizational structure and operating practices and processes. Such additional costs or operational disruptions could have an adverse effect on Oncor's business and financial prospects and may not be recoverable through rates.

In addition, Oncor may incur significant transition costs or experience significant operational disruptions in connection with the termination of its outsourcing arrangement with Capgemini as it transitions the business support services back to Oncor or to other vendors. Such additional costs and/or operational difficulties could have an adverse effect on Oncor's business and financial prospects. Moreover, Oncor is subject to the risk that any new outsourcing arrangements for such business support services may cost more.

Changes in technology may reduce the value of Oncor's electricity delivery facilities and may significantly impact Oncor's businesses in other ways as well.

Research and development activities are ongoing to improve existing and alternative technologies to produce electricity, including gas turbines, fuel cells, microturbines and photovoltaic (solar) cells. It is possible that advances in these or other technologies will reduce the costs of electricity production from these technologies to a level that will enable these technologies to compete effectively with traditional generation plants. Also, electricity demand could be reduced by increased conservation efforts and advances in technology, which could likewise significantly reduce the value of Oncor's electricity delivery facilities. Changes in technology could also alter the channels through which retail customers buy electricity. To the extent self-generation facilities become a more cost-effective option for certain customers, Oncor's revenues could be reduced.

Table of Contents

Oncor's results of operations and financial condition could be negatively impacted by any development or event beyond Oncor's control that causes economic weakness in the ERCOT market.

Oncor derives substantially all of its revenues from operations in the ERCOT market, which covers approximately 75% of the geographical area in the state of Texas. As a result, regardless of the state of the economy in areas outside the ERCOT market, economic weakness in the ERCOT market could lead to reduced demand for electricity in the ERCOT market. Such a reduction could have a material negative impact on Oncor's results of operations and financial condition.

Oncor's credit ratings could negatively affect Oncor's ability to access capital.

Downgrades in Oncor's credit ratings generally cause borrowing costs to increase and the potential pool of investors and funding sources to decrease. In connection with the Merger, Fitch, Moody's and S&P downgraded Oncor's credit ratings. On November 5, 2008, Oncor sold a 19.75% minority stake to an investor group to further enhance Oncor's separation from Texas Holdings, EFH Corp. and EFH Corp.'s other subsidiaries. In connection with Oncor's execution of the agreement, S&P and Moody's upgraded Oncor's credit ratings for senior unsecured debt and senior secured debt from BBB- to BBB+ and from Ba1 to Baa3, respectively. In the event any downgrade occurs and causes Oncor's borrowing costs to increase, Oncor may not be able to recover such increased costs if they exceed Oncor's approved cost of debt determined in its 2008 general rate case or subsequent rate cases.

Most of Oncor's large customers, suppliers and counterparties require an expected level of creditworthiness in order for them to enter into transactions. If Oncor's credit ratings decline, the costs to operate Oncor's businesses would likely increase because counterparties could require the posting of collateral in the form of cash-related instruments, or counterparties could decline to do business with Oncor.

The loss of the services of Oncor's key management and personnel could adversely affect Oncor's ability to operate its businesses.

Oncor's future success will depend on its ability to continue to attract and retain highly qualified personnel. Oncor competes for such personnel with many other companies, in and outside Oncor's industry, government entities and other organizations. Oncor may not be successful in retaining its current personnel or in hiring or retaining qualified personnel in the future. Oncor's failure to attract new personnel or retain its existing personnel could have a material adverse effect on Oncor's businesses.

The global financial crisis has caused unprecedented market volatility and may have impacts on Oncor's business and financial condition that Oncor currently cannot predict.

Because its operations are capital intensive, Oncor expects to rely over the long-term upon access to financial markets as a significant source of liquidity for capital requirements not satisfied by cash-on-hand, operating cash flows or its revolving credit facility. The capital and credit markets have been experiencing extreme volatility and disruption. As a result, the continued credit crisis and related turmoil in the global financial system may have an impact on Oncor's business and financial condition. Oncor's ability to access the capital or credit markets may be severely restricted at a time when Oncor would like, or needs, to access those markets, which could have an impact on Oncor's flexibility to react to changing economic and business conditions. In addition, the cost of debt financing may be materially adversely impacted by these market conditions. Even if Oncor is able to obtain debt financing, it may be unable to recover in rates some or all of the costs of such debt financing as a result of its agreement with the PUCT that it will, in rate cases after its 2008 general rate case through proceedings initiated prior to December 31, 2012, support a cost of debt that will be based on the then-current cost of debt of electric utilities with investment grade credit ratings equal to Oncor's ratings as of October 1, 2007. As such, there can be no assurance that the capital and credit markets will continue to be a reliable or acceptable source of short-term or long-term financing for Oncor. If current levels of market disruption and volatility continue or worsen, Oncor may be forced to meet its liquidity needs, such as its anticipated capital expenditures, through its cash flows. Additionally, the crisis could have a broader impact on business in general in ways that could lead to reduced electricity usage, which could have a negative impact on Oncor's revenues, and the credit crisis could have an impact on Oncor's customers, causing them to fail to meet their obligations to Oncor.

Table of Contents

In the future, Oncor could have liquidity needs that could be difficult to satisfy under some circumstances, especially in uncertain financial market conditions.

Oncor's operations are capital intensive. Oncor relies on access to financial markets and its liquidity facility as a significant source of liquidity for capital requirements not satisfied by cash-on-hand or operating cash flows. The inability to raise capital on favorable terms or access liquidity facilities, particularly during times of uncertainty similar to that which is currently being experienced in the financial markets, could adversely impact Oncor's ability to sustain and grow its businesses and would likely increase capital costs that may not be recoverable through rates. Oncor's access to the financial markets and its liquidity facility, and the pricing and terms Oncor receives in the financial markets, could be adversely impacted by various factors, such as:

- changes in financial markets that reduce available credit or the ability to obtain or renew liquidity facilities on acceptable terms;
- economic weakness in the ERCOT market;
- changes in interest rates;
- a deterioration of Oncor's credit or a reduction in Oncor's credit ratings;
- a deterioration of the credit of EFH Corp. or EFH Corp.'s other subsidiaries or a reduction in the credit ratings of EFH Corp. or EFH Corp.'s other subsidiaries that is perceived to potentially have an adverse impact on Oncor despite the ring-fencing of the Oncor Ring-Fenced Entities from the Texas Holdings Group;
- a material breakdown in Oncor's risk management procedures, and
- the occurrence of material adverse changes in Oncor's businesses that restrict its ability to access its liquidity facilities.

Oncor's primary source of liquidity aside from operating cash flows is its ability to borrow under its revolving credit facility. The facility contains a debt-to-capital ratio covenant that effectively limits Oncor's ability to incur indebtedness in the future. As of December 31, 2008, Oncor was in compliance with such covenant. The credit facility and the senior notes issued by Oncor are secured by a deed of trust which permits Oncor to secure other indebtedness with the lien of the deed of trust up to the amount of the available bond credits. As of December 31, 2008, the available bond credits were \$2.1 billion. In connection with the Merger, Oncor also committed to the PUCT that it would maintain a regulatory capital structure at or below the assumed debt-to-equity ratio established periodically by the PUCT for ratemaking purposes, which is currently set at 60% debt to 40% equity.

The allocated costs of providing pension and other postretirement employee benefits and related funding requirements are subject to changes in pension fund values, changing demographics and fluctuating actuarial assumptions and may have a material adverse effect on Oncor's results of operations and financial condition.

Oncor is a participating employer in the pension plan sponsored by EFH Corp. and offers pension benefits based on either a traditional defined benefit formula or a cash balance formula. Oncor also participates in health care and life insurance benefit plans offered by EFH Corp. to eligible employees and their eligible dependents upon the retirement of such employees from Oncor. Oncor's allocated costs of providing such benefits and related funding requirements are dependent upon numerous factors, assumptions and estimates and are subject to changes in such factors, assumptions and estimates, including the market value of the assets funding EFH Corp.'s pension plan and OPEB plans. Fluctuations in actual market returns as well as changes in general interest rates may result in increased or decreased benefit costs in future periods.

The recent substantial dislocation in the financial markets has caused the value of the investments that fund EFH Corp.'s pension and OPEB plans to significantly differ from, and may alter the values and actuarial assumptions EFH Corp. uses to calculate, projected future pension plan expense and OPEB costs allocated to Oncor. A continuation or further decline in the value of these investments could increase the expenses of EFH Corp.'s pension plan and the costs of its OPEB plan allocated to Oncor and related funding requirements in the future. Benefits costs and related funding requirements are also subject to changing employee demographics (including but not limited to age, compensation levels and years of accredited service), the level of contributions made to retiree plans, expected and actual earnings on plan assets and the discount rates used in determining the projected benefit obligation. Changes made to the provisions of the plans may also impact current and future benefit costs. Fluctuations in actual market returns as well as changes in general interest rates may result in increased or decreased benefit costs in future periods.

Table of Contents

As was the case in the fourth quarter 2008 (as discussed in Notes 1 and 3 to Financial Statements), goodwill that Oncor has recorded in connection with the Merger is subject to at least annual impairment evaluations and as a result, Oncor could be required to write off some or all of this goodwill, which may reflect adverse impacts on Oncor's financial condition and results of operations.

In accordance with SFAS 142, goodwill recorded in connection with the Merger is not amortized but is reviewed annually or more frequently for impairment, if certain conditions exist, and may be impaired. Any reduction in or impairment of the value of goodwill will result in a charge against earnings, which could reflect material adverse impacts on Oncor's reported results of operations and financial position.

Oncor's ring-fencing measures may not work as planned.

As discussed above, to enhance the separateness between the Oncor Ring-Fenced Entities and the Texas Holdings Group, various legal, financial and contractual provisions were implemented. These enhancements are intended to minimize the risk that a court would order any of the Oncor Ring-Fenced Entities' assets and liabilities to be substantively consolidated with those of any member of the Texas Holdings Group in the event that a member of the Texas Holdings Group were to become a debtor in a bankruptcy case. Nevertheless, bankruptcy courts have broad equitable powers, and as a result, outcomes in bankruptcy proceedings are inherently difficult to predict. Accordingly, if any member of the Texas Holdings Group were to become a debtor in a bankruptcy case, there can be no assurance that a court would not order an Oncor Ring-Fenced Entity's assets and liabilities to be substantively consolidated with those of such member of the Texas Holdings Group. See Note 1 to Financial Statements for additional information on ring-fencing measures.

Item 1B. UNRESOLVED STAFF COMMENTS

None.

Item 3. LEGAL PROCEEDINGS

Oncor is involved in various legal and administrative proceedings in the normal course of business the ultimate resolution of which, in the opinion of management, should not have a material effect on its financial position, results of operations or cash flows.

Item 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

None.

Item 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED EQUITY HOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

On November 5, 2008, Oncor issued and sold additional equity interests to Texas Transmission, resulting in Texas Transmission acquiring a 19.75% interest in Oncor. Texas Transmission is an entity indirectly owned by a private investment group led by OMERS Administration Corporation, acting through its infrastructure investment entity Borealis Infrastructure Management Inc., and the Government of Singapore Investment Corporation, acting through its private equity and infrastructure arm GIC Special Investments Pte Ltd. Contemporaneous with the issuance of equity interests to Texas Transmission, Oncor issued and sold additional equity interests to Investment LLC, resulting in Investment LLC acquiring a 0.21% interest in Oncor. The interests were not registered under the Securities Act and were issued in reliance upon the exemptions from registration provided by Section 4(2) of the Securities Act and Rule 506 of Regulation D promulgated under the Securities Act.

Oncor sold the additional equity interests for \$1.267 billion, less \$14 million in closing costs. The proceeds (net of closing costs) of \$1.253 billion received by Oncor were distributed to Oncor Holdings. Other distributions to Oncor Holdings in 2008 are presented below. Distributions to Oncor Holdings have in turn been distributed to EFH Corp.

In 2007 (prior to the Merger), Oncor made the following distributions to EFH Corp.:

<u>Declaration Date</u>	<u>Payment Date</u>	<u>Amount Paid (in millions)</u>
October 1, 2007	October 2, 2007	\$ 75
July 1, 2007	July 2, 2007	\$ 75
April 1, 2007	April 2, 2007	\$ 88
January 1, 2007	January 2, 2007	\$ 88

In 2008, Oncor made the following distributions to Oncor Holdings:

<u>Declaration Date</u>	<u>Payment Date</u>	<u>Amount Paid (in millions)</u>
November 13, 2008	November 14, 2008	\$ 117
August 20, 2008	August 21, 2008	\$ 78
May 14, 2008	May 15, 2008	\$ 78
February 20, 2008	March 31, 2008	\$ 57

For the period beginning October 11, 2007 and ending December 31, 2012, the distributions paid by Oncor are limited by the Limited Liability Company Agreement to an amount not to exceed Oncor's net income determined in accordance with GAAP, subject to certain defined adjustments. Such adjustments include deducting the \$72 million (\$46 million after tax) one-time refund to customers in September 2008 and removing the effect of the \$860 million charge for impairment to goodwill from fourth quarter 2008 net income available for distribution. Distributions are further limited by Oncor's required regulatory capital structure, as determined by the PUCT, which is required to be at or below the assumed debt-to-equity ratio established periodically by the PUCT for ratemaking purposes, which is currently set at 60% debt to 40% equity. No material amount of Oncor's net income is currently restricted from being used to make distributions on its membership interests except for the one-time refund.

As of December 31, 2008, outstanding membership interests in Oncor of 80.04% were directly held by Oncor Holdings and indirectly held by EFH Corp., 19.75% were held by Texas Transmission and 0.21% were held indirectly by certain members of Oncor's management through Investment LLC. None of the membership interests are publicly traded.

Table of Contents

Item 6. SELECTED FINANCIAL DATA

	Successor December 31,		Predecessor December 31,		
	2008	2007	2006	2005	2004
	(millions of dollars, except ratios)				
Total assets — end of year	\$ 15,706	\$ 15,434	\$ 10,709	\$ 9,911	\$ 9,493
Property, plant & equipment — net — end of year	8,606	8,069	7,608	7,067	6,609
Capitalization — end of year					
Long-term debt, less amounts due currently	\$ 5,101	\$ 3,702	\$ 3,811	\$ 4,107	\$ 4,199
Shareholder's equity	—	—	2,975	2,935	2,687
Membership interests	6,799	7,618	—	—	—
Total	\$ 11,900	\$ 11,320	\$ 6,786	\$ 7,042	\$ 6,886
Capitalization ratios — end of year (a)					
Long-term debt, less amounts due currently	42.9%	32.7%	56.2%	58.3%	61.0%
Shareholder's equity	—	—	43.8	41.7	39.0
Membership interests	57.1	67.3	—	—	—
Total	100.0%	100.0%	100.0%	100.0%	100.0%

- (a) The regulatory capitalization ratio (as determined by the PUCT) excludes transition bonds and the effect on membership interests of applying purchase accounting, including amounts recorded as goodwill. At December 31, 2008, the regulatory capitalization ratio was 58.2% debt and 41.8% equity.

	Successor (d)		Predecessor			
	Year Ended December 31, 2008	Period from October 11, 2007 through December 31, 2007	Period from January 1, 2007 through October 10, 2007	Year Ended December 31,		
				2006	2005	2004
			(millions of dollars, except ratios)			
Operating revenues	\$ 2,580	\$ 533	\$ 1,967	\$ 2,449	\$ 2,394	\$ 2,226
Net income (loss) (a)	\$ (487)	\$ 64	\$ 263	\$ 344	\$ 351	\$ 273
Capital expenditures	\$ 882	\$ 153	\$ 555	\$ 840	\$ 733	\$ 600
Ratio of earnings to fixed charges (b)	—	2.30	2.68	2.74	2.87	2.29
Embedded interest cost on long-term debt — end of period (c)	6.7%	6.7%	6.6%	6.5%	6.5%	6.4%

- (a) Amount in 2008 includes an \$860 million goodwill impairment charge (see Note 3 to Financial Statements). Amount in 2004 includes an extraordinary gain of \$16 million after-tax related to a regulatory asset adjustment and a credit of \$2 million after-tax representing a cumulative effect of change in accounting principle.
- (b) Fixed charges exceeded earnings by \$266 million for the year ended December 31, 2008.
- (c) Represents the annual interest and amortization of any discounts, premiums, issuance costs and any deferred gains/losses on reacquisitions divided by the carrying value of the debt plus or minus the unamortized balance of any discounts, premiums, issuance costs and gains/losses on reacquisitions at the end of the year and excludes advances from affiliates.
- (d) In connection with the Merger, Oncor was converted from a Texas corporation to a Delaware limited liability company. The consolidated financial statements have been prepared on the same basis as the audited financial statements included in Oncor's Annual Report on Form 10-K for the year ended December 31, 2007 except for the presentation of income taxes (see Note 7 to Financial Statements). The consolidated financial statements of the Successor reflect the application of purchase accounting.

Table of Contents**Quarterly Information (unaudited)**

Results of operations by quarter are summarized below. In the opinion of Oncor, all adjustments (consisting of normal recurring accruals) necessary for a fair statement of such amounts have been made. Quarterly results are not necessarily indicative of a full year's operations because of seasonal and other factors.

	Successor			
	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
	(millions of dollars)			
2008:				
Operating revenues	\$ 614	\$ 626	\$ 728	\$ 612
Operating income	151	150	206	143
Net income	85	85	139	(796)

	Predecessor (a)			Successor Period from October 11, 2007 through December 31, 2007
	First Quarter	Second Quarter	Third Quarter	
	(millions of dollars)			
2007:				
Operating revenues	\$ 613	\$ 582	\$ 705	\$ 533
Operating income	157	129	199	125
Net income	85	54	124	64

(a) The 10-day period ended October 10, 2007 has not been presented as it is deemed immaterial.

Table of Contents**Item 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

The following discussion and analysis of Oncor's financial condition and results of operations for the fiscal years ended December 31, 2008, 2007 and 2006 should be read in conjunction with Selected Financial Data and Oncor's audited consolidated financial statements and the notes to those statements.

All dollar amounts in the tables in the following discussion and analysis are stated in millions of US dollars unless otherwise indicated.

BUSINESS

See Note 1 to Financial Statements for a description of the business.

Significant Activities and Events

Sale of Minority Interests — In November 2008, Oncor sold additional equity interests that resulted in an unaffiliated investor group acquiring a 19.75% minority stake and certain members of Oncor's management indirectly acquiring a 0.21% stake in Oncor. The investor group was led by certain firms from Canada and Singapore and is not affiliated with any member of the Sponsor Group, Texas Holdings or EFH Corp. The investor group and management paid \$1.267 billion in cash for the minority stakes. The proceeds (net of closing costs) of \$1.253 billion received by Oncor from these issuances of equity were distributed to Oncor Holdings and ultimately to EFH Corp. See Note 1 to Financial Statements for additional information.

See discussion of credit rating upgrades as a result of the minority interests sale below under "Credit Ratings".

Effects of Declines in Financial Markets — The financial market conditions had a significant effect on Oncor's assessment of the carrying value of goodwill. Oncor recorded an impairment charge of \$860 million in 2008, primarily arising from the dislocation in the capital markets that has increased interest rate spreads and the resulting discount rates reflected in Oncor's estimation of fair values and the effects of recent declines in market values of debt and equity securities of comparable companies. See Note 3 to Financial Statements and "Application of Critical Accounting Policies" below for more information on the goodwill impairment charge and "Liquidity and Capital Resources" below for discussion of actions taken in response to the uncertain financial markets.

Table of Contents

While Oncor believes its cash from operations combined with availability under its existing credit facility provides sufficient liquidity to fund current and projected expenses and capital requirements for the next 12 months (see "Liquidity and Capital Resources" below), there can be no assurance, considering the current uncertainty in financial markets, that counterparties to its credit facility will perform as expected or that material unexpected changes in financial markets or the economy will not result in liquidity constraints or require increased funding of the EFH Corp. pension and OPEB plans. In addition, Oncor's longer term capital spending, including the investment of approximately \$1.3 billion to construct CREZ-related transmission lines and facilities discussed in "Regulation and Rates", will require access to financial markets.

Notice of Termination of Outsourcing Arrangements — During the fourth quarter of 2008, Oncor executed a Separation Agreement with Capgemini Energy LP (Capgemini), Capgemini America, Inc. and Capgemini North America, Inc. (collectively, CgE). Simultaneous with the execution of that Separation Agreement, EFH Corp. and TCEH entered into a substantially similar Separation Agreement with CgE. The Separation Agreements principally provide for (i) notice of termination of each of the Master Framework Agreements, dated as of May 17, 2004, each as amended, between Capgemini and each of Oncor and TCEH and the related service agreements under each of the Master Framework Agreements and (ii) termination of the joint venture arrangements between EFH Corp. (and its applicable subsidiaries) and CgE. Under the Master Framework Agreements and related services agreements, Capgemini has provided to Oncor and EFH Corp. and its other subsidiaries outsourced support services, including information technology, customer care and billing, human resources, procurement and certain finance and accounting activities.

Consistent with the Master Framework Agreement, to provide for an orderly transition of the services, the Separation Agreement requires that Capgemini provide termination assistance services until the services are transitioned back to Oncor and/or to another service provider. The Separation Agreement provides that the services be transitioned by December 31, 2010 (June 30, 2011, in the case of the information technology services). The Master Framework Agreement will terminate when these termination assistance services are completed. Oncor previously provided a termination notice to Capgemini in respect of human resources services. See Note 15 to Financial Statements for further discussion.

The effects of the termination of the outsourcing arrangements, including Oncor's accrual of \$16 million for incremental costs to exit and transition the services, were included in EFH Corp.'s purchase price allocation (see Note 2 to Financial Statements).

Refund to Customers — Oncor provided a one-time \$72 million refund to its REP customers in the September 2008 billing cycle. The refund was a commitment made by Oncor in connection with the PUCT's review of the Merger and was recorded as a regulatory liability in the fourth quarter 2007 as part of purchase accounting. The refund was in the form of a credit on distribution fee billings.

While the refund was provided to REPs, the intent was that it be passed through by REPs to end-use retail consumers, and only those REPs that agreed to do so received their portion of the credit. Funds allocated to those REPs that did not agree to pass on the refunds were redistributed to the other customers served by REPs agreeing to pass on the refunds to ensure that the entire \$72 million was refunded. To qualify, a retail customer must have been an electricity customer in the Oncor territory during December 2007 and still be served at the same location by a REP that agreed to pass on the refund. Commercial and industrial customers also received a portion of the \$72 million refund, although it was based on their individual usage during calendar year 2007.

Rate Case, Advanced Metering Deployment Surcharge Case and Competitive Renewable Energy Zones — See discussion of these major initiatives below under "Regulation and Rates".

Table of Contents

KEY RISKS AND CHALLENGES

Following is a discussion of key risks and challenges facing management and the initiatives currently underway to manage such challenges.

Rates and Cost Recovery

The rates assessed by Oncor are regulated by the PUCT and certain cities and are subject to regulatory rate-setting processes and annual earnings oversight. This regulatory treatment does not provide any assurance as to achievement of earnings levels. Oncor's rates are regulated based on an analysis of Oncor's costs and capital structure, as reviewed and approved in a regulatory proceeding. While rate regulation is premised on the full recovery of prudently incurred costs and a reasonable rate of return on invested capital, there is no assurance that the PUCT will judge all of Oncor's costs to have been prudently incurred, that the PUCT will not reduce the amount of invested capital included in the capital structure that Oncor's rates are based upon or that the regulatory process in which rates are determined will always result in rates that produce full recovery of Oncor's costs.

As part of a stipulation approved by the PUCT, Oncor filed a rate case with the PUCT (Docket No. 35717) and 204 cities in June 2008, based on a test year ended December 31, 2007. A hearing on the merits concluded in February 2009. Resolution of Oncor's proposed rate increase is expected to occur in summer 2009. Upon such resolution any resulting rate changes will commence. Oncor cannot predict the outcome of this or any rate case or its effect on its results of operations or cash flows.

In 2005, the Texas Legislature passed legislation that authorized electric utilities to impose a surcharge to recover costs incurred in deploying advanced metering and meter information networks. In 2007, the PUCT issued its advanced metering rule to implement this legislation. This rule outlined the minimum required functionality for an electric utility's advanced metering systems to qualify for cost recovery under a surcharge. In May 2008, Oncor filed with the PUCT (Docket No. 35718) a description and request for approval of its proposed advanced metering system deployment plan and its proposed surcharge for the recovery of its estimated future investment for advanced metering deployment. An order approving the settlement was issued by the PUCT in August 2008 and became final in September 2008. Oncor began billing the advanced metering surcharge in the January 2009 billing month cycle. Oncor may, through subsequent reconciliation proceedings, request recovery of additional costs that are reasonable and necessary. While there is a presumption that costs spent in accordance with a plan approved by the PUCT are reasonable and necessary, any costs that are found not to have been spent or properly allocated, or not to be reasonable or necessary, must be refunded.

Prior to the PUCT issuance of rules for minimum required functionality for advanced metering systems, Oncor installed approximately 600,000 automated meters in its service territory at a capital cost of approximately \$125 million. These meters are not part of the surcharge request, and Oncor is seeking recovery of the costs of these meters in its general rate case discussed above.

See "Regulation and Rates" below for more detail regarding these regulatory proceedings.

Table of Contents

Technology Initiatives

Oncor continues to invest in technology initiatives that include development of a modernized grid through the replacement of existing meters with advanced digital metering equipment and development of advanced digital communication, data management, real-time monitoring and outage detection capabilities. This modernized grid is expected to produce electricity service reliability improvements and provide the potential for additional products and services from REPs that will enable businesses and consumers to better manage their electricity usage and costs.

In May 2008, Oncor acquired a vendor's existing BPL-based "Smart Grid" network assets in Oncor's service territory for \$90 million in cash. These network assets include BPL equipment and technology such as fiber optics, embedded sensors and software analytics that are intended to enable Oncor to better monitor its electricity distribution network over up to one-sixth of its service territory. The network assets also included certain finished goods inventory and additional components. As part of the transaction, Oncor agreed to purchase software licenses and maintenance and operation services for a three-year period for approximately \$35 million, including \$25 million paid at the closing of the transaction. In addition, Oncor may, at its option, purchase additional equipment and utilize additional services from the vendor that would allow Oncor to expand the BPL network to up to one-half of its service territory.

Risks to these programs include nonperformance by equipment and service providers, failure of the technology to meet performance expectations and inadequate cost recovery allowances by regulatory authorities. Oncor is implementing measures to mitigate these risks, but there can be no assurance that these technology initiatives will achieve the operational and financial objectives.

Table of Contents

APPLICATION OF CRITICAL ACCOUNTING POLICIES

Oncor's significant accounting policies are discussed in Note 1 to Financial Statements. Oncor follows accounting principles generally accepted in the US. Application of these accounting policies in the preparation of Oncor's consolidated financial statements requires management to make estimates and assumptions about future events that affect the reporting of assets and liabilities at the balance sheet dates and revenues and expenses during the periods covered. The following is a summary of certain critical accounting policies of Oncor that are impacted by judgments and uncertainties and under which different amounts might be reported using different assumptions or estimation methodologies.

Purchase Accounting

The Merger was accounted for under purchase accounting, whereby the purchase price of the transaction was allocated to EFH Corp.'s identifiable assets acquired and liabilities assumed based upon their fair values. The estimates of the fair values recorded were determined based on the principles in SFAS 157 and reflect significant assumptions and judgments. For Oncor, the realization of its assets and settlement of its liabilities are largely subject to cost-based regulatory rate-setting processes. Accordingly, the historical carrying values of a majority of its assets and liabilities are deemed to represent fair values. See discussions in Note 2 to Financial Statements regarding adjustments to the carrying values of a regulatory asset and related long-term debt.

The excess of the purchase price over the estimated fair values of the net assets acquired was recorded as goodwill. The goodwill amount recorded at EFH Corp. totaled \$23.2 billion as a result of purchase accounting, of which \$4.9 billion was assigned to Oncor. The assignment of goodwill was based on the relative estimated enterprise value of Oncor's operations as of the date of the Merger using discounted cash flow methodologies. In accordance with SFAS 142, goodwill is not amortized to net income, but is required to be tested for impairment at least annually.

In the fourth quarter of 2008, Oncor recorded a goodwill impairment charge of \$860 million. The impairment is Oncor's best estimate and subject to change upon finalization of fair value calculations which will be completed during the first quarter of 2009. See discussion immediately below under "Impairment of Long-Lived Assets."

Impairment of Long-Lived Assets

Oncor evaluates long-lived assets (including intangible assets with finite lives) for impairment in accordance with SFAS 144 whenever events or changes in circumstances indicate that an impairment may exist. The determination of the existence of these and other indications of impairment involves judgments that are subjective in nature and may require the use of estimates in forecasting future results and cash flows.

Goodwill is required to be tested for impairment at least annually or whenever events or changes in circumstances indicate an impairment may exist. Oncor tests goodwill for impairment on October 1st each year. Under this SFAS 142 goodwill impairment analysis, if at the assessment date Oncor's carrying value exceeds its estimated fair value (enterprise value), the estimated enterprise value is compared to the estimated fair values of Oncor's operating assets (including identifiable intangible assets) and liabilities at the assessment date, and the resultant implied goodwill amount is compared to the recorded goodwill amount. Any excess of the recorded goodwill amount over the implied goodwill amount is written off as an impairment charge.

The determination of enterprise value involves a number of assumptions and estimates. Oncor uses a combination of three fair value inputs to estimate enterprise values of its reporting units: internal discounted cash flow analyses (income approach), comparable company equity values and any recent pending and/or completed relevant transactions. The income approach involves estimates of future performance that reflect assumptions regarding, among other things, the discount rate, or weighted average cost of capital. The determination of the discount rate takes into consideration the capital structure, debt ratings and current debt yields of comparable companies as well as an estimate of return on equity that reflects historical market returns and current market volatility for the industry. Enterprise value estimates based on comparable company equity values involve using trading multiples of EBITDA of those selected companies to derive appropriate multiples to apply to Oncor's EBITDA. This approach requires an estimate, using historical acquisition data, of an appropriate control premium to apply to the values calculated from such multiples. Critical judgments include the selection of comparable companies and the weighting of the three value inputs in developing the best estimate of enterprise value.

Table of Contents

See Note 3 to Financial Statements for a discussion of the \$860 million goodwill impairment charge recorded in the fourth quarter of 2008. The charge is not deductible for income tax-related purposes. The impairment primarily arises from the dislocation in the capital markets that has increased interest rate spreads and the resulting discount rates used in the income approach and in the trading multiples of comparable companies and the effect of recent declines in market values of debt and equity securities of comparable companies.

Revenue Recognition

Oncor's revenue includes an estimate for electricity delivery services provided from the meter reading date to the end of the period (unbilled revenue). Unbilled revenue is based on actual daily revenues for the most recent period, adjusted for weather and other measurable factors that affect consumption, applied to the number of unmetered days through the end of the period. Accrued unbilled revenues totaled \$140 million, \$137 million and \$118 million at December 31, 2008, 2007 and 2006, respectively.

Accounting for the Effects of Income Taxes

In connection with the Merger, Oncor, Oncor Holdings and EFH Corp. entered into a tax sharing agreement (amended in November 2008 to include Texas Transmission and Investment LLC due to the sale of minority interests by Oncor), retroactive to January 1, 2007. The tax sharing agreement provides for the allocation of amounts related to income taxes to each of Oncor Holdings and Oncor substantially as if these entities were stand-alone corporations and requires payments to EFH Corp. and the minority interest holders determined on that basis (without duplication for any income taxes paid by a subsidiary of Oncor Holdings). The tax sharing agreement did not have a material effect on expense amounts recorded in 2007 as compared to income tax expense in 2006.

Oncor became a partnership for US federal income tax purposes effective with the minority interests sale transactions in November 2008. Accordingly, while partnerships are not subject to income taxes, in consideration of the tax sharing agreement and the presentation of Oncor's financial statements as an entity subject to cost-based regulatory rate-setting processes, with such costs historically including income taxes, the financial statements present amounts determined under the tax sharing agreement as "provision in lieu of income taxes" and "liability in lieu of deferred income taxes" for periods subsequent to the minority interests sale. Such amounts are determined in accordance with the provisions of SFAS 109 and FIN 48 and thus differences between the book and tax bases of assets and liabilities are accounted for as if Oncor was a stand-alone corporation. Certain provisions of SFAS 109 provide that regulated enterprises are permitted to recognize deferred taxes as regulatory tax assets or tax liabilities if it is probable that such amounts will be recovered from, or returned to, customers in future rates.

Oncor's expense amounts related to income taxes and related balance sheet amounts are recorded pursuant to Oncor's tax sharing agreement as discussed above. Recording of such amounts involves significant management estimates and judgments, including judgments and estimates of the timing and probability of recognition of income and deductions by taxing authorities. In assessing the likelihood of realization of assets related to income taxes, management considers estimates of the amount and character of future taxable income. Actual amounts related to income taxes could vary from estimated amounts due to the future impacts of various items, including changes in income tax laws, Oncor's forecasted financial condition and results of operations in future periods, as well as final review of filed tax returns by taxing authorities. EFH Corp.'s income tax returns are regularly subject to examination by applicable tax authorities. In management's opinion, an adequate reserve has been made for any future amounts that may be owed as a result of any examination.

FIN 48 provides interpretive guidance for accounting for uncertain tax positions, and as discussed in Note 6 to the Financial Statements, Oncor adopted this new standard January 1, 2007, and the effects of the standard are reflected in amounts recorded under the tax sharing agreement. Also see Note 7 to Financial Statements.

Table of Contents**Depreciation**

As discussed above, the historical carrying values of the transmission and distribution utility assets subject to regulated rate recovery were deemed to represent fair values in purchase accounting. Depreciation expense for such assets totaled \$330 million, \$298 million and \$301 million in 2008, 2007 and 2006, respectively, or 2.8% of carrying value in each of 2008, 2007 and 2006.

Regulatory Assets

The financial statements at December 31, 2008 and 2007 reflect total regulatory assets of \$2.071 billion and \$1.593 billion, respectively. These amounts include \$865 million and \$967 million, respectively, of generation-related regulatory assets recoverable by securitization (transition) bonds as discussed immediately below. Rate regulation is premised on the full recovery of prudently incurred costs and a reasonable rate of return on invested capital. The assumptions and judgments used by regulatory authorities continue to have an impact on the recovery of costs, the rate earned on invested capital and the timing and amount of assets to be recovered by rates. See Note 8 to Financial Statements for more information regarding regulatory assets and liabilities.

Generation-related regulatory asset stranded costs arising prior to the 1999 Restructuring Legislation became subject to recovery through issuance of \$1.3 billion principal amount of transition bonds in accordance with a regulatory financing order. The carrying value of the regulatory asset upon final issuance of the bonds in 2004 represented the projected future cash flows to be recovered from REPs by Oncor through revenues as a transition charge to service the principal and fixed rate interest on the bonds. The regulatory asset is being amortized to expense in an amount equal to the transition charge revenues being recognized. As discussed in Note 2 to Financial Statements, the regulatory asset and related transition bonds were adjusted to fair value on the date of the Merger in accordance with purchase accounting rules.

Other regulatory assets that Oncor believes are probable of recovery, but are subject to review and possible disallowance, totaled \$913 million at December 31, 2008. These amounts consist primarily of employee retirement costs and storm-related service recovery costs.

Table of Contents

Defined Benefit Pension Plans and OPEB Plans

Oncor is a participating employer in the EFH Retirement Plan, a defined benefit pension plan sponsored by EFH Corp. Oncor also participates with EFH Corp. and certain other subsidiaries of EFH Corp. to offer certain health care and life insurance benefits to eligible employees and their eligible dependents upon the retirement of such employees. Reported costs of providing noncontributory pension and OPEBs are dependent upon numerous factors, assumptions and estimates.

Benefit costs are impacted by actual employee demographics (including but not limited to age, compensation levels and years of accredited service), the level of contributions made to retiree plans, expected and actual earnings on plan assets and the discount rates used in determining the projected benefit obligation. Changes made to the provisions of the plans may also impact current and future benefit costs. Fluctuations in actual equity market returns as well as changes in general interest rates may result in increased or decreased benefit costs in future periods.

Changes in benefit obligations associated with factors discussed above may not be immediately recognized in the financial statements, but recognized in future years over the remaining average service period of plan participants. As such, significant portions of benefit costs recorded in any period may not reflect the actual level of cash benefits provided to plan participants. Pension and OPEB costs as determined under applicable accounting rules are summarized in the following table:

	Successor		Predecessor	
	Year Ended December 31, 2008	Period from October 11, 2007 through December 31, 2007	Period from January 1, 2007 through October 10, 2007	Year Ended December 31, 2006
Pension costs under SFAS 87	\$ 15	\$ 3	\$ 21	\$ 41
OPEB costs under SFAS 106	44	9	50	61
Total benefit costs	59	12	71	102
Less amounts deferred principally as a regulatory asset or property	(42)	(8)	(43)	(84)
Net amounts recognized as expense	\$ 17	\$ 4	\$ 28	\$ 18
Discount rates	6.55%	6.45%	5.90%	5.75%
Funding of pension and OPEB plans	\$ 77	\$ 6	\$ 30	\$ 28

Regulatory Recovery of Pension and OPEB Costs — In 2005, an amendment to PURA relating to EFH Corp.'s pension and OPEB costs was enacted by the Texas Legislature. This amendment, which was retroactively effective January 1, 2005, provides for the recovery by Oncor of pension and OPEB costs for all applicable former employees of the regulated predecessor integrated electric utility. In addition to Oncor's active and retired employees, these former employees largely include active and retired personnel engaged in TCEH's activities, related to service of those additional personnel prior to the deregulation and disaggregation of EFH Corp.'s business effective January 1, 2002. Accordingly, Oncor and TCEH entered into an agreement whereby Oncor assumed responsibility for applicable pension and OPEB costs related to those personnel.

The amendment additionally authorizes Oncor to establish a regulatory asset or liability for the difference between the amounts of pension and OPEB costs approved in current billing rates and the actual amounts that would otherwise have been recorded as charges or credits to earnings. Accordingly, in 2005 Oncor began deferring (principally as a regulatory asset or property) additional pension and OPEB costs consistent with the amendment. Amounts deferred are ultimately subject to regulatory approval.

Table of Contents

PRESENTATION AND ANALYSIS OF RESULTS

Management's discussion and analysis of results of operations and cash flows has been prepared by analyzing the results of operations and cash flows of the Successor for the year ended December 31, 2008 on a stand-alone basis, by comparing the results of operations and cash flows of the Successor for the period October 11, 2007 through December 31, 2007 to the results of operations and cash flows of the Predecessor for the three months ended December 31, 2006 and by comparing the results of operations and cash flows of the Predecessor for the period January 1, 2007 through October 10, 2007 to the results of operations and cash flows of the Predecessor for the nine months ended September 30, 2006. Certain volumetric and statistical data for 2007 have been presented as of and for the nine months ended September 30, 2007 and as of and for the three months ended December 31, 2007. Such volumetric and statistical data are measured and reported on a monthly, quarterly and annual basis. The Successor and Predecessor periods relate to periods after the Merger and before the Merger, respectively, and are presented separately due to the change in basis of presentation as a result of the application of purchase accounting for the Merger.

See Note 1 for discussion of presentation of amounts related to income taxes.

RESULTS OF OPERATIONS

Financial Results

	Successor		Predecessor		
	Year Ended December 31, 2008	Period from October 11, 2007 through December 31, 2007	Period from January 1, 2007 through October 10, 2007	Three Months Ended December 31, 2006	Nine Months Ended September 30, 2006
Operating revenues:					
Affiliated	\$ 1,000	\$ 209	\$ 823	\$ 243	\$ 896
Nonaffiliated	1,580	324	1,144	332	978
Total operating revenues	2,580	533	1,967	575	1,874
Operating expenses:					
Operation and maintenance	852	200	649	197	607
Depreciation and amortization	492	96	366	117	359
Provision for/in lieu of income taxes	195	25	150	21	135
Taxes other than amounts related to income taxes	391	87	305	105	297
Total operating expenses	1,930	408	1,470	440	1,398
Operating income	650	125	497	135	476
Other income and deductions:					
Impairment of goodwill (Note 3)	860	—	—	—	—
Other income	45	11	3	—	2
Other deductions	25	8	30	12	15
Nonoperating provision for/in lieu of income taxes	26	6	9	3	11
Interest income	45	12	44	15	43
Interest expense and related charges (Note 19)	316	70	242	73	213
Net income (loss)	\$ (487)	\$ 64	\$ 263	\$ 62	\$ 282

Table of Contents

Operating Data

	Successor		Predecessor		
	Year Ended December 31, 2008	Three Months Ended December 31, 2007	Nine Months Ended September 30, 2007	Three Months Ended December 31, 2006	Nine Months Ended September 30, 2006
Operating statistics — volumes:					
Electric energy delivered (GWh)	107,672	24,622	81,523	23,618	83,480
Reliability statistics (a):					
System Average Interruption Duration Index (SAIDI) (nonstorm)	85.4	77.9	79.2	79.1	78.3
System Average Interruption Frequency Index (SAIFI) (nonstorm)	1.1	1.1	1.1	1.2	1.2
Customer Average Interruption Duration Index (CAIDI) (nonstorm)	74.7	70.6	69.5	67.5	67.3
Electric points of delivery (end of period and in thousands):					
Electricity distribution points of delivery (based on number of meters)	3,123	3,093	3,087	3,056	3,051
	Successor		Predecessor		
	Year Ended December 31, 2008	Period from October 11, 2007 through December 31, 2007	Period from January 1, 2007 through October 10, 2007	Three Months Ended December 31, 2006	Nine Months Ended September 30, 2006
Operating revenues:					
Electricity distribution revenues (b):					
Affiliated (TCEH)	\$ 998	\$ 208	\$ 821	\$ 243	\$ 894
Nonaffiliated	1,264	257	921	264	782
Total distribution revenues	2,262	465	1,742	507	1,676
Third-party transmission revenues	280	60	199	60	176
Other miscellaneous revenues	38	8	26	8	22
Total operating revenues	\$ 2,580	\$ 533	\$ 1,967	\$ 575	\$ 1,874

- (a) SAIDI is the average number of minutes electric service is interrupted per consumer in a year. SAIFI is the average number of electric service interruptions per consumer in a year. CAIDI is the average duration in minutes per electric service interruption in a year. The statistics presented are based on the preceding twelve months' data.
- (b) Includes transition charge revenue associated with the issuance of securitization bonds totaling \$140 million for the year ended December 31, 2008, \$29 million for the period October 11, 2007 through December 31, 2007, \$116 million for the period January 1, 2007 through October 10, 2007, \$34 million for the three months ended December 31, 2006 and \$117 million for the nine months ended September 30, 2006. Also includes disconnect/reconnect fees and other discretionary revenues for services requested by REPs.

Financial Results — 2008

Successor Period — Year Ended December 31, 2008

Operating revenues for 2008 of \$2.6 billion reflected rate increases approved in 2006 and 2007 to recover ongoing investment in the transmission system and growth in points of delivery.

Operation and maintenance expense for 2008 totaled \$852 million, which included approximately \$339 million in fees paid to other transmission providers. The balance of the costs consisted largely of employee and contractor costs to maintain and repair the transmission and distribution assets, including vegetation management, as well as administrative and general salaries and benefits and outsourced service provider costs.

Depreciation and amortization expense for 2008 of \$492 million reflected ongoing investments in property, plant and equipment and included \$145 million of ongoing regulatory asset amortization for which there are related revenues from transition charge billings.

Taxes other than amounts related to income taxes for 2008 totaled \$391 million, which included \$255 million in local franchise fees and \$125 million in property taxes.

Table of Contents

See Note 3 to Financial Statements for a discussion of the \$860 million goodwill impairment charge recorded in the fourth quarter of 2008.

Other income for 2008 totaled \$45 million, which included \$44 million of accretion for an adjustment (discount) to regulatory assets resulting from purchase accounting. Other deductions for 2008 totaled \$25 million, which included \$13 million in costs associated with the 2006 cities rate settlement. See Note 19 to Financial Statements for details of other income and deductions.

Provision for/in lieu of income taxes for 2008 totaled \$221 million on a loss (including \$195 million related to operating income and \$26 million related to nonoperating income). Excluding the impacts of the non-deductible goodwill impairment, the effective rate on pretax income was 37.2%. The 37.2% effective rate as compared to the 35.0% statutory rate reflected state income taxes and the non-deductibility of losses on certain benefit plans partially offset by the amortization of investment tax credits. See Note 7 for reconciliation of the effective rate to the US federal statutory rate.

Interest income for 2008 totaled \$45 million, which essentially consisted of interest income from TCEH with respect to Oncor's generation-related regulatory assets securitized through the issuance of transition bonds by Oncor's bankruptcy-remote financing subsidiary.

Interest expense and related charges for 2008 totaled \$316 million, which reflected \$5.363 billion in average borrowings at an average rate of 5.86%.

Net loss for 2008 totaled \$487 million.

Financial Results — 2007 and 2006

Successor Period from October 11, 2007 through December 31, 2007 Compared to the Three Month Predecessor Period Ended December 31, 2006

Operating revenues decreased \$42 million, or 7%, to \$533 million in 2007. The ten fewer days in the 2007 period resulted in \$67 million in lower revenues. This decrease was partially offset by increased distribution tariffs to recover higher transmission costs, higher transmission revenues primarily due to rate increases to recover ongoing investment in the transmission system, the effect of weather-driven higher average electricity consumption and the impact of growth in points of delivery.

Operation and maintenance expense increased \$3 million, or 2%, to \$200 million in 2007. The increase reflected higher incentive pay and benefits expense in 2007, higher fees paid to other transmission entities and higher vegetation management expenses, largely offset by \$23 million in lower costs attributable to the ten fewer days in the 2007 period.

Depreciation and amortization decreased \$21 million, or 18%, to \$96 million in 2007. The ten fewer days in the 2007 period resulted in \$12 million in lower costs.

Taxes other than amounts related to income taxes decreased \$18 million, or 17%, to \$87 million in 2007. The ten fewer days in the 2007 period resulted in \$10 million in lower costs, and property taxes decreased reflecting lower tax rates as a result of enactment of the Texas margin tax. Included in this line item are local franchise fees resulting from the 2006 cities rate settlement totaling \$2 million for the period October 11, 2007 through December 31, 2007 and \$1 million for the three months ended December 31, 2006.

Other income in 2007 totaled \$11 million, which included \$10 million of accretion for an adjustment (discount) to regulatory assets resulting from purchase accounting. Other deductions totaled \$8 million and \$12 million in 2007 and 2006, respectively, which included costs associated with the 2006 cities rate settlement of \$6 million and \$7 million, respectively.

Table of Contents

The provision for income taxes in 2007 totaled \$31 million (including \$25 million related to operating income and \$6 million related to nonoperating income) and the effective rate was 32.6%. The provision for income taxes in 2006 totaled \$24 million and the effective rate was 27.9%. The increased rate primarily reflected adjustments to state income tax expense recorded in the 2006 period related to prior period state franchise tax returns.

Interest income decreased \$3 million, or 20%, to \$12 million in 2007. The ten fewer days in the 2007 period resulted in \$2 million in lower interest income and contractual reimbursements from TCEH for transition bond interest expense declined as a result of the declining balance of such bonds.

Interest expense and related charges decreased by \$3 million, or 4%, to \$70 million in 2007. The ten fewer days in the 2007 period resulted in \$9 million in lower expense. This decrease was largely offset by \$5 million from higher average borrowings, largely to support the ongoing capital investment in the business, and \$1 million from higher average interest rates.

Net income totaled \$64 million in 2007 and \$62 million in 2006.

Predecessor Period from January 1, 2007 through October 10, 2007 Compared to the Nine Month Predecessor Period Ended September 30, 2006

Operating revenues increased \$93 million, or 5%, to \$1.967 billion in 2007. Of this increase, \$67 million was attributed to the ten additional days in the 2007 period. The balance of the revenue increase reflected:

- \$18 million from increased distribution tariffs to recover higher transmission costs, and
- \$16 million in higher transmission revenues primarily due to rate increases approved in 2006 and 2007 to recover ongoing investment in the transmission system,

partially offset by,

- \$9 million effect of lower average consumption due in part to cooler, below normal summer weather in 2007 and hotter than normal weather in 2006, net of the impact of increased points of delivery, and
- lower charges to REPs related to securitization bonds (offset by lower amortization of the related regulatory asset).

Operation and maintenance expense increased \$42 million, or 7%, to \$649 million in 2007. Of this increase, \$23 million was attributed to the ten additional days in the 2007 period. The balance of the increase reflected \$19 million in higher fees paid to other transmission entities, higher labor-related costs due to timing of equipment installation activities and expenses related to the rebranding of the Oncor Electric Delivery Company name, partially offset by lower vegetation management expenses.

Depreciation and amortization increased \$7 million, or 2%, to \$366 million in 2007 which was primarily due to the ten additional days in 2007 and ongoing investments in property, plant and equipment, partially offset by lower amortization of the regulatory assets associated with the securitization bonds (offset in revenue).

Taxes other than amounts related to income taxes increased \$8 million, or 3%, to \$305 million in 2007. The increase reflected \$10 million attributed to the ten additional days in the 2007 period, partially offset by lower property taxes reflecting lower property tax rates as a result of the enactment of the Texas margin tax. Included in franchise and revenue-based taxes are local franchise fees resulting from the 2006 cities rate settlement totaling \$6 million for the period January 1, 2007 through October 10, 2007 and \$4 million for the nine months ended September 30, 2006.

Other income totaled \$3 million in 2007 and \$2 million in 2006. Other deductions totaled \$30 million in 2007 and \$15 million in 2006. The increase in other deductions was primarily due to higher costs associated with the 2006 cities rate settlement.

Table of Contents

The provision for income taxes was \$159 million in 2007 (including \$150 million related to operating income and \$9 million related to nonoperating income) compared to \$146 million in 2006 (including \$135 million related to operating income and \$11 million related to nonoperating income). The effective rate increased to 37.7% in 2007 from 34.1% in 2006. The increased rate was driven by higher taxes under the Texas margin tax, higher interest accrued related to uncertain tax positions and the effect of full amortization prior to 2007 of a regulatory liability associated with statutory tax rate changes.

Interest expense increased \$29 million, or 14%, to \$242 million in 2007. Of this increase, \$9 million was due to the ten additional days in the 2007 period. The balance of the increase reflected \$14 million due to higher average borrowings, largely to support ongoing capital investment in the business, and \$5 million due to higher average interest rates.

Net income decreased \$19 million, or 7%, to \$263 million. This decrease was driven by higher costs associated with the 2006 cities rate settlement and a decline in delivered volumes due to lower average electricity consumption.

OTHER COMPREHENSIVE INCOME

In September 2008, Oncor entered into interest rate swap transactions hedging the variability of treasury bond rates used to determine the interest rates on an anticipated issuance of an aggregate of \$1.0 billion of senior secured notes maturing from 2013 to 2018. The hedges were terminated the same day, and \$2 million in after-tax losses were recorded as other comprehensive income.

After tax losses of \$1 million for the period January 1, 2007 through October 10, 2007 and \$2 million for the year ended December 31, 2006 were recognized in net income related to settled cash flow hedges (variable to fixed interest rate swaps). All amounts included in accumulated other comprehensive income as of October 10, 2007, which totaled \$18 million in net losses, were eliminated as part of purchase accounting. Oncor has used derivative financial instruments that were effective in offsetting future cash flow variability related to interest rates; these consisted of interest rate swaps entered into to hedge variable rate debt. Amounts in accumulated other comprehensive income included the value of dedesignated and terminated cash flow hedges at the time of such dedesignation/termination, less amounts reclassified to net income as the original hedged transactions were actually settled and affected net income.

Table of Contents
FINANCIAL CONDITION

Liquidity and Capital Resources

Cash Flows — Cash flows from operating, financing and investing activities included:

	Successor		Predecessor		
	Year Ended December 31, 2008	Period from October 11, 2007 through December 31, 2007	Period from January 1, 2007 through October 10, 2007	Three Months Ended December 31, 2006	Nine Months Ended September 30, 2006
Cash flows — operating activities					
Net income (loss)	\$ (487)	\$ 64	\$ 263	\$ 62	\$ 282
Adjustments to reconcile net income to cash provided by operating activities:					
Depreciation and amortization	451	95	366	116	357
Provision for/in lieu of deferred income taxes — net	163	71	21	(6)	33
Amortization of investment tax credits	(5)	(1)	(4)	(1)	(4)
Impairment of goodwill	860	—	—	—	—
Other, net	6	1	6	—	8
Changes in operating assets and liabilities	(160)	(165)	30	59	(278)
Cash provided by operating activities	828	65	682	230	398
Cash flows — financing activities					
Net issuances/(repayments) of borrowings (including advances from parent)	440	62	214	16	511
Distributions/dividends	(330)	—	(326)	(85)	(255)
Decrease in income tax-related note receivable from TCEH	34	9	24	9	30
Excess tax benefit on stock-based incentive compensation	10	15	—	(3)	17
Cash provided by (used in) financing activities	154	86	(88)	(63)	303
Cash flows — investing activities					
Capital expenditures	(882)	(153)	(555)	(165)	(675)
Other	3	7	(23)	(2)	(40)
Cash used in investing activities	(879)	(146)	(578)	(167)	(715)
Net change in cash and cash equivalents	\$ 103	\$ 5	\$ 16	\$ —	\$ (14)

Year Ended December 31, 2008 — Cash provided by operating activities totaled \$828 million, reflecting normal, ongoing operating activities and the \$72 million refund to customers discussed under “Significant Activities and Events”.

Capital expenditures in 2008 reflected the acquisition of a vendor’s existing BPL-based “Smart Grid” network assets in Oncor’s service territory for \$90 million. See “Key Risks and Challenges” above for further discussion.

Successor Period from October 11, 2007 through December 31, 2007 compared to the Three Month Predecessor Period Ended December 31, 2006 — Cash provided by operating activities totaled \$65 million in the 2007 period compared to \$230 million in the 2006 period. The \$165 million decrease reflected \$113 million in repurchases of accounts receivables previously sold (see Note 9 to Financial Statements) and \$49 million unfavorable change in accrued taxes due to the impact of implementing the tax sharing agreement.

Table of Contents

Predecessor Period from January 1, 2007 through October 10, 2007 Compared to Nine Month Predecessor Period Ended September 30, 2006 – Cash provided by operating activities totaled \$682 million in the 2007 period compared to \$398 million in the 2006 period. The \$284 million increase reflected:

- a \$135 million favorable change in income taxes paid to EFH Corp. primarily due to timing of payments in 2006 related to the 2005 income tax liability, and
- a \$102 million favorable change in working capital (accounts receivable, accounts payable and inventories) largely due to
 - \$42 million increase in sale of accounts receivable;
 - \$29 million in lower materials and supplies inventory purchases due primarily to timing of capital expenditure projects, and
 - \$21 million increase in accounts payable reflecting increased use of outsourced service providers and contractors for operation and maintenance activities,

The decrease in capital expenditures in the 2007 period compared to the 2006 period was driven by lower new customer distribution connections and the completion of several large transmission projects.

Depreciation and amortization expense reported in the statement of consolidated cash flows is less than the amount reported in the statement of consolidated income by \$41 million for the year ended December 31, 2008. The difference represents the \$44 million accretion of the adjustment (discount) to regulatory assets, net of the \$3 million amortization of debt fair value discount, both due to purchase accounting and reported in other income and interest expense and related charges, respectively, in the statement of consolidated income.

Long-Term Debt Activity — In September 2008, Oncor issued and sold \$1.5 billion aggregate principal amount of senior secured notes, consisting of \$650 million aggregate principal amount of 5.95% notes due 2013, \$550 million aggregate principal amount of 6.80% notes due 2018 and \$300 million aggregate principal amount of 7.50% notes due 2038. Most of the \$1.487 billion in proceeds (which is net of underwriters' fees and debt discounts) was used to repay borrowings under the Oncor revolving credit facility and the remainder was used for general corporate purposes. Repayments for the year ended December 31, 2008 totaled \$99 million in scheduled transition bond principal payments. See Note 11 to Financial Statements for further information regarding long-term debt.

Available Liquidity/Credit Facilities — At December 31, 2008, Oncor had a \$2.0 billion revolving credit facility under which borrowings are available on a revolving basis through October 10, 2013. Oncor may increase the commitments under the facility in any amount up to \$500 million, subject to the satisfaction of certain conditions. Borrowing capacity available under this credit facility totaled \$1.508 billion at December 31, 2008 and \$720 million at December 31, 2007. Availability increased \$788 million for the twelve months ended December 31, 2008 due to the issuance of \$1.5 billion principal amount of fixed-rate senior secured notes as described above, the net proceeds from which were used to repay credit facility borrowings, partially offset by funding of capital investments, including the purchase of an existing BPL based "Smart Grid" network as discussed above under "Key Risks and Challenges". Cash and cash equivalents totaled \$125 million at December 31, 2008.

Under the terms of Oncor's revolving credit facility, the commitments of the lenders to make loans to Oncor are several and not joint. Accordingly, if any lender fails to make loans to Oncor, Oncor's available liquidity could be reduced by an amount up to the aggregate amount of such lender's commitments under the facility.

Table of Contents

In May 2008, Oncor secured the credit facility with a first priority lien on certain of its transmission and distribution assets. Oncor has also secured all of its existing long-term debt securities (excluding the transition bonds) with the same lien in accordance with the terms of those securities. The lien contains customary provisions allowing Oncor to use the assets in its business, as well as to replace and/or release collateral as long as the market value of the collateral is at least 115% of the aggregate secured debt. The lien may be terminated at Oncor's option upon the termination of Oncor's current credit facility. See Note 10 to Financial Statements for additional information regarding the credit facility.

Additional Financial Market Uncertainty Consideration — EFH Corp. has evaluated its investments held in trusts, including those that will be used by Oncor to satisfy future obligations under pension and postretirement benefit plans. The recent substantial dislocation in the financial markets has caused a significant decline in the value of such investments, and a continuation or further disruption in the markets could be material to Oncor. While the pension and postretirement plan investments include some subprime-related securities, a decline in the fair value of such securities was not material to the overall decline in the plan investment values.

Pension and OPEB Plan Funding — Pension and OPEB plan calendar year funding for Oncor is expected to total \$61 million and \$18 million, respectively, in 2009. Based on the funded status of the pension plan at December 31, 2008, EFH Corp.'s funding is expected to total approximately \$665 million for the 2009 – 2013 period. Approximately 85% of this amount is expected to be funded by Oncor consistent with its share of the pension liability. Contributions to the pension and OPEB plans in 2008 totaled \$46 million and \$31 million, respectively.

Liquidity Needs, Including Capital Expenditures — Oncor expects capital expenditures to total approximately \$875 million over the twelve months ending December 31, 2009 for investment in its transmission and distribution infrastructure, which is consistent with its commitment to spend a minimum of \$3.6 billion in capital expenditures over the five-year period ending December 31, 2012. This excludes investments in transmission assets to support CREZ as discussed below in "Regulation and Rates". See Note 4 to Financial Statements for discussion of this and other commitments in the stipulation approved by the PUCT. In addition, Oncor expects capital expenditures related to the CREZ Transmission Plan to total approximately \$90 million over the twelve months ending December 31, 2009.

Oncor's primary source of liquidity aside from operating cash flows is its ability to borrow under its revolving credit facility. The facility contains a debt-to-capital ratio covenant that effectively limits Oncor's ability to incur indebtedness in the future. As of December 31, 2008, Oncor was in compliance with such covenant. The credit facility and the senior notes issued by Oncor are secured by a deed of trust, which permits Oncor to secure other indebtedness with the lien of the deed of trust up to the amount of available bond credits. As of December 31, 2008, the available bond credits were approximately \$2.1 billion. In connection with the Merger, Oncor also committed to the PUCT that it would maintain a regulatory capital structure at or below the assumed debt-to-equity ratio established periodically by the PUCT for ratemaking purposes, which is currently set at 60% debt to 40% equity.

Because its operations are capital intensive, Oncor expects to rely over the long-term upon access to financial markets as a significant source of liquidity for capital requirements not satisfied by cash-on-hand, operating cash flows or its revolving credit facility. The inability to raise capital on favorable terms or failure of counterparties to perform under credit or other financial agreements, particularly considering the current uncertainty in the financial markets, could impact Oncor's ability to sustain and grow its businesses and would likely increase capital costs that may not be recoverable through rates. Oncor expects cash flows from operations, combined with availability under its revolving credit facility, to provide sufficient liquidity to fund current obligations, projected working capital requirements, maturities of long-term debt and capital spending for at least the next twelve months.

Table of Contents

Distributions — Oncor's cash distributions to Oncor Holdings, an indirect wholly-owned subsidiary of EFH Corp., and the dates distributions were declared by Oncor's board of directors, were as follows:

Declaration Date	Payment Date	Amount Paid
November 13, 2008	November 14, 2008	\$ 117
August 20, 2008	August 21, 2008	\$ 78
May 14, 2008	May 15, 2008	\$ 78
February 20, 2008	March 31, 2008	\$ 57

The proceeds (net of closing costs) of \$1.253 billion received by Oncor in November 2008 from the issuance of equity to the investor group and the contemporaneous issuance of equity indirectly to certain members of Oncor management were distributed to Oncor Holdings. See Note 1 to Financial Statements for additional information.

For the period beginning October 11, 2007 and ending December 31, 2012, the distributions paid by Oncor are limited to an amount not to exceed Oncor's net income determined in accordance with GAAP, subject to certain defined adjustments. Such adjustments include deducting the \$72 million (\$46 million after-tax) one-time refund to customers in September 2008 and removing the effect of the \$860 million goodwill impairment charge from fourth quarter 2008 net income available for distribution. See discussion above under "Significant Activities and Events – Refund to Customers." Distributions are further limited by Oncor's required regulatory capital structure, as determined by the PUCT, which is required to be at or below the assumed debt-to-equity ratio established periodically by the PUCT for ratemaking purposes, which is currently set at 60% debt to 40% equity. No material amount of Oncor's net income is currently restricted from being used to make distributions on its membership interests except for the one-time refund. The net proceeds of \$1.253 billion received from the sale of equity interests to Texas Transmission and certain members of Oncor's management were excluded from these distribution limitations.

In February 2009, the board of directors declared a cash distribution of between \$24 million and \$26 million to be paid on March 3, 2009. The actual amount of the distribution will be determined in accordance with the net income restrictions on such distributions.

Capitalization — The capitalization ratios of Oncor were 42.9% long-term debt, less amounts due currently, to 57.1% membership interests as of December 31, 2008 and 32.7% to 67.3% at December 31, 2007.

Table of Contents

Financial Covenants, Credit Rating Provisions and Cross Default Provisions — Oncor's revolving credit facility contains a financial covenant that requires maintenance of a specified leverage ratio. As of December 31, 2008, Oncor was in compliance with such covenant.

Credit Ratings — The rating agencies assign issuer credit ratings for Oncor. The issuer credit ratings as of February 20, 2009 for Oncor are BBB+ and BBB- by S&P and Fitch, respectively.

Additionally, the rating agencies assign credit ratings on certain debt securities issued by Oncor. The credit ratings assigned for debt securities issued by Oncor as of February 20, 2009 are presented below:

	<u>Senior Secured</u>	<u>Senior Unsecured</u>
S&P	BBB+	BBB+
Moody's	Baa3	Baa3
Fitch	BBB	BBB

As described in Notes 10 and 11, all of Oncor's long-term debt is secured by a first priority lien on certain of its transmission and distribution assets and is considered senior secured debt. All three rating agencies have placed the ratings for Oncor on "stable outlook".

In November 2008, Oncor sold additional equity interests resulting in an unaffiliated investor group acquiring a 19.75% minority stake in Oncor. In connection with Oncor's execution of the agreement, S&P upgraded Oncor's issuer credit rating and Oncor's long-term debt ratings by two notches from BBB- to BBB+, and Moody's upgraded Oncor's long-term debt ratings by one notch from Ba1 to Baa3. In conjunction with the Moody's upgrade, Moody's withdrew its issuer credit rating of Ba1 previously assigned to Oncor. As a matter of practice, Moody's does not assign issuer credit ratings for investment grade utility companies. See Note 1 to Financial Statements for additional information on the minority interests sale.

A rating reflects only the view of a rating agency, and is not a recommendation to buy, sell or hold securities. Ratings can be revised upward or downward at any time by a rating agency if such rating agency decides that circumstances warrant such a change.

Material Credit Rating Covenants — Certain arrangements of Oncor, including its credit facility and certain leases, contain terms pursuant to which the interest rates charged under the agreements may be adjusted depending on credit ratings.

Material Cross Default Provisions — Certain financing arrangements contain provisions that may result in an event of default if there were a failure under other financing arrangements to meet payment terms or to observe other covenants that could or does result in an acceleration of payments due. Such provisions are referred to as "cross default" provisions.

A default by Oncor or any subsidiary thereof in respect of indebtedness in a principal amount in excess of \$50 million may result in a cross default under its credit facility. Under this facility such a default may cause the maturity of outstanding balances (\$337 million at January 30, 2009) under such facility to be accelerated.

Table of Contents

Long-Term Contractual Obligations and Commitments — The following table summarizes Oncor's contractual cash obligations as of December 31, 2008 (see Notes 11 and 12 to Financial Statements for additional disclosures regarding these long-term debt and noncancelable purchase obligations).

Contractual Cash Obligations	Less Than One Year	One to Three Years	Three to Five Years	More Than Five Years	Total
Long-term debt – principal	\$ 103	\$ 221	\$ 1,594	\$ 3,311	\$ 5,229
Long-term debt – interest	335	655	546	2,420	3,956
Operating leases (a)	8	14	9	11	42
Obligations under outsourcing agreements (b)	50	63	—	—	113
Obligations under services agreements	5	5	—	—	10
Total contractual cash obligations (c)	<u>\$ 501</u>	<u>\$ 958</u>	<u>\$ 2,149</u>	<u>\$ 5,742</u>	<u>\$ 9,350</u>

- (a) Includes short-term noncancelable leases.
- (b) See Note 15 to Financial Statements for discussion of an outsourcing agreement termination.
- (c) Table does not include estimated 2009 funding of the pension and other employee postretirement benefits plans totaling approximately \$79 million. See "Pension and OPEB Funding" above for discussion of pension plan funding.

The following contractual obligations were excluded from the table above:

- contracts between affiliated entities and intercompany debt;
- individual contracts that have an annual cash requirement of less than \$1 million (however, multiple contracts with one counterparty that are more than \$1 million on an aggregated basis have been included);
- contracts that are cancelable without payment of a substantial cancellation penalty, including the construction and maintenance services contract described below;
- employment contracts with management, and
- liabilities related to uncertain tax positions totaling \$122 million discussed in Note 6 to Financial Statements as the ultimate timing of payment is not known.

In June 2008, Oncor entered into a 10-year contract for transmission and distribution construction and maintenance services effective for calendar years 2009 through 2018. The contract terms include pricing that assumes minimum purchase amounts by Oncor of \$300 million for each of the five two-year periods of the contract. Purchases of less than the assumed amounts may result in lost discount payments of up to \$24 million per two-year period if such minimum levels are not met. The contract can be terminated by Oncor for convenience or by the vendor if certain threshold spending is not achieved, subject to a wind-down payment of up to \$21 million in 2009, declining annually to \$2 million at the beginning of 2018 or by either party for cause with no wind-down payment. Termination can be for the full contract or for certain services only. Management considers it unlikely that any material lost discount payments will be made.

Hearings on CREZ Transmission Plan proposals were held in December 2008. At a January 2009 open meeting, the PUCT assigned approximately \$1.3 billion of CREZ construction projects to Oncor. Oncor anticipates that a written order reflecting the PUCT's decisions will be entered during the first quarter of 2009. The cost estimates for the CREZ construction projects are based upon estimates prepared by ERCOT. Oncor expects capital expenditures related to CREZ transmission facilities to be approximately \$90 million in 2009 with additional expenditures through 2012. These amounts are not included in the table above.

If EFH Corp. defaulted in its contributions to the EFH Retirement Plan, as the plan sponsor, it is expected that Oncor would seek to continue the plan and would be liable for any liabilities in excess of the assets of the plan. As of December 31, 2008, the plan's liabilities in excess of its assets (excluding Oncor's portion) totaled \$109 million.

Guarantees — See Note 12 to Financial Statements for details of guarantees.

Table of Contents

OFF-BALANCE SHEET ARRANGEMENTS

As of December 31, 2008, Oncor does not have any off-balance sheet arrangements with special purpose entities or variable interest entities.

COMMITMENTS AND CONTINGENCIES

See Note 12 to Financial Statements for a discussion of commitments and contingencies, including guarantees.

CHANGES IN ACCOUNTING STANDARDS

See Note 1 to Financial Statements for a discussion of changes in accounting standards.

REGULATION AND RATES

2009 Texas Legislative Session

The Texas Legislature convened in its regular biennial session beginning January 13, 2009. The session will conclude June 1, 2009. Oncor is actively monitoring and providing input regarding legislation that could impact its operations. Oncor is unable to predict the outcome of the 2009 legislative process or its impact, if any, on its financial position, results of operations or cash flows.

Certification of REPs

In October 2008, the PUCT proposed a replacement of the rule relating to Certification of Retail Electric Providers. The proposed new rule is expected to strengthen the certification requirements for REPs in order to better protect customers, transmission and distribution utilities (TDUs), and other REPs from the insolvency and other harmful conditions and activities of REPs. The new rule would be considered a competition rule and thus be subject to judicial review as specified in PURA. The new rule proposes, among other things, increased creditworthiness requirements and financial reporting for REPs, additional customer protection requirements, deposit requirements to TDUs, and regulatory asset consideration for bad debt expenses. The PUCT is expected to finalize the new rule in the first quarter of 2009. Oncor cannot predict the final outcome of this proposed rule.

Matters with the PUCT

Stipulation Approved by the PUCT — In April 2008, the PUCT entered an order, which became final in June 2008, approving the terms of a stipulation relating to the filing in 2007 by Oncor and Texas Holdings of a Merger-related Joint Report and Application with the PUCT pursuant to Section 14.101 (b) of PURA and PUCT Substantive Rule 25.75. The stipulation required the filing of a rate case by Oncor no later than July 1, 2008 based on a test year ended December 31, 2007. Oncor filed the rate case with the PUCT in June 2008. In July 2008, Nucor Steel filed an appeal of the PUCT's order in the 200th District Court of Travis County, Texas. Oncor was named a defendant and intends to vigorously defend the appeal.

Rate Case — In June 2008, Oncor filed for a rate review with the PUCT (Docket No. 35717) and 204 cities, as required by the order approving the stipulation discussed above. If approved as requested, this review would result in an aggregate annual rate increase of approximately \$253 million (adjusted from \$275 million as reflected in Oncor's initial filing), the majority of which relates to increased depreciation expense due to capital investments and recovery of costs that have been recorded as regulatory assets. A hearing on the merits concluded in February 2009. Resolution of Oncor's proposed rate increase is expected to occur in the summer of 2009.

Table of Contents

Advanced Meter Rulemaking — In 2005, the Texas Legislature passed legislation that authorized electric utilities to implement a surcharge to recover costs incurred in deploying advanced metering and meter information networks. Benefits of the advanced metering installation include improved safety, on-demand meter reading, enhanced outage identification and restoration and system monitoring of voltages. In 2007, the PUCT issued its advanced metering rule to implement this legislation. This rule outlined the minimum required functionality for an electric utility's advanced metering systems to qualify for cost recovery under a surcharge. Subsequent to the issuance of the rule, the PUCT opened an implementation proceeding for market participants to fine-tune the rule requirements, address the impacts of advanced metering deployment on retail and wholesale markets in ERCOT, and help ensure that retail customers receive benefits from advanced metering deployment. The implementation proceeding is expected to conclude by the end of the first quarter of 2009.

Advanced Metering Deployment Surcharge Filing — In May 2008, Oncor filed with the PUCT (Docket No. 35718) a description and request for approval of its proposed advanced metering system deployment plan and its proposed surcharge for the recovery of its estimated future investment for advanced metering deployment. Oncor's plan provides for the full deployment of over three million advanced meters by the end of 2012 to all residential and most non-residential retail electricity customers in Oncor's service area. Oncor installed approximately 5,000 advanced meters in a pilot program in the three months ended June 30, 2008, and deployed approximately 35,000 additional advanced meters in the fourth quarter of 2008.

In August 2008, a settlement was reached with the majority of the parties to this surcharge filing. The settlement includes the following major provisions (the comparisons are against amounts filed in the original request):

- a surcharge beginning on January 1, 2009 and continuing for 11 years;
- a total revenue requirement over the surcharge period of \$1.035 billion (reduced from \$1.069 billion);
- estimated capital expenditures for advanced metering facilities of \$686 million (reduced from \$690 million);
- related operation and maintenance expenses for the surcharge period of \$153 million (increased from \$148 million);
- \$28 million of additional savings (in addition to the \$176 million in the original filing), and
- an advanced metering cost recovery factor of \$2.21 per month per residential retail customer (reduced from \$2.29 per month) and varying from \$2.42 to \$5.21 per month for non-residential retail customers (reduced from \$2.49 to \$5.35 per month).

An order approving the settlement was issued by the PUCT in August 2008 and became final in September 2008. Oncor began billing the advanced metering surcharge in the January 2009 billing month cycle. Oncor may, through subsequent reconciliation proceedings, request recovery of additional costs that are reasonable and necessary. While there is a presumption that costs spent in accordance with a plan approved by the PUCT are reasonable and necessary, recovery of any costs that are found not to have been spent or properly allocated, or not to be reasonable or necessary, must be refunded.

Prior to the PUCT issuance of rules for minimum required functionality for advanced metering systems, Oncor installed approximately 600,000 automated meters in its service territory at a capital cost of approximately \$125 million. These meters are not part of the surcharge request, and Oncor is seeking recovery of the incremental costs of these meters in its general rate case discussed above.

Oncor Energy Efficiency Cost Recovery Filing — In June 2008, Oncor filed with the PUCT a Request for Approval of Energy Efficiency Cost Recovery Factor (Docket No. 35634). Oncor requested a nonbypassable charge to be billed to REPs serving customer classes that receive services under Oncor's energy efficiency program. The proposed recovery factor is \$0.22 per month for each residential customer and will vary for non-residential customers. The proposed charge will allow Oncor, in a timely manner, to recover reasonable and necessary costs incurred in administering its energy efficiency program. In October 2008, the PUCT approved the recovery factor. Oncor began billing the surcharge in the January 2009 billing month cycle.

Table of Contents

Transmission Rates — In order to recover increases in its transmission costs, including fees paid to other transmission service providers, Oncor is allowed to request an update twice a year to the transmission cost recovery factor (TCRF) component of its retail delivery rate charged to REPs. In January 2009, an application was filed to increase the TCRF, which was administratively approved in February 2009 and became effective March 1, 2009. This increase is expected to increase annualized revenues by \$16 million.

In February 2008, Oncor filed an application for an interim update of its wholesale transmission rate. The PUCT approved Oncor's application in April 2008, and the new rate went into effect immediately. Annualized revenues are expected to increase by approximately \$39 million. Approximately \$25 million of this increase is recoverable through transmission rates charged to wholesale customers, and the remaining \$14 million is recoverable from REPs through the TCRF component of Oncor's delivery rates charged to REPs as discussed immediately above. With the pending rate case discussed above, Oncor has not filed for an interim update of its wholesale transmission rate in 2009.

Competitive Renewable Energy Zones (CREZ) — In the first quarter of 2007, the PUCT initiated a docket to identify the transmission facilities necessary to interconnect future renewable energy generating facilities. As part of the docket, the PUCT considered which zones would contain the best renewable energy sources. In July 2007, the PUCT voted to designate zones with generation potential of over 20,000 MW. In July 2008, the PUCT approved a plan for the construction of transmission facilities with an estimated cost of \$4.9 billion to accommodate over 18,000 MW of wind capacity.

In September 2008, parties interested in the construction and operation of CREZ transmission facilities filed CREZ Transmission Plans. Oncor and several other ERCOT utilities filed a joint CREZ Transmission Plan, which includes the joint parties' plans to construct and operate all of the CREZ transmission facilities. Hearings on the CREZ Transmission Plan proposals were held in December 2008. At a January 2009 open meeting, the PUCT assigned approximately \$1.3 billion of CREZ construction projects to Oncor. Oncor anticipates that a written order reflecting the PUCT's decisions will be entered during the first quarter of 2009. The cost estimates for the CREZ construction projects are based upon analyses prepared by ERCOT. Oncor anticipates completing the necessary permitting actions and other requirements and all construction activities so that its CREZ Transmission Plan may be implemented consistent with the PUCT's assignment. The PUCT's assignment calls for construction to be completed in 2012.

Summary

Oncor cannot predict future regulatory or legislative actions or any changes in economic and securities market conditions. Such actions or changes could significantly alter its basic financial position, results of operations or cash flows.

Table of Contents

Item 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Interest Rate Risk

Market risk is the risk that Oncor may experience a loss in value as a result of changes in market conditions such as interest rates, to which Oncor is exposed in the ordinary course of business. Oncor may transact in financial instruments to hedge interest rate risk related to its indebtedness. All of Oncor's long-term debt at December 31, 2008 and 2007 carried fixed interest rates.

	Expected Maturity Date						Successor			
	2009	2010	2011	2012	2013	There-after	2008 Total Carrying Amount	2008 Total Fair Value	2007 Total Carrying Amount	2007 Total Fair Value
	(millions of dollars, except percentages)									
Long-term debt (including current maturities)										
Fixed rate debt amount (a)	\$ 103	\$ 108	\$ 113	\$ 819	\$ 775	\$ 3,311	\$ 5,229	\$ 4,990	\$ 3,828	\$ 3,948
Average interest rate	4.02%	4.75%	4.86%	6.16%	5.85%	6.79%	6.41%	—	6.28%	—

(a) Excludes unamortized premiums and discounts. See Note 11 to Financial Statements for a discussion of changes in debt obligations.

Credit Risk

Credit Risk — Credit risk relates to the risk of loss associated with nonperformance by counterparties. Oncor's customers consist primarily of REPs. As a prerequisite for obtaining and maintaining certification, a REP must meet the financial resource standards established by the PUCT. Meeting these standards does not guarantee that a REP will be able to perform its obligations. REP certificates granted by the PUCT are subject to suspension and revocation for significant violation of PURA and PUCT rules. Significant violations include failure to timely remit payments for invoiced charges to a transmission and distribution utility pursuant to the terms of tariffs approved by the PUCT. See "Regulation and Rates" above regarding a proposed REP certification rule.

Credit Exposure — Oncor's exposure to credit risk associated with accounts receivable totaled \$172 million from affiliated customers (TCEH) and \$224 million from nonaffiliated customers as of December 31, 2008. The nonaffiliated customer receivable amount is before the allowance for uncollectible accounts, which totaled \$7 million at December 31, 2008, and consists almost entirely of noninvestment grade trade accounts receivable. As of December 31, 2008, Oncor has a customer that represents 12% of the nonaffiliated trade receivable amount. Oncor views exposure to this customer to be within an acceptable level of risk tolerance considering PUCT rules and regulations; however, this concentration increases the risk that a default would have a material effect on Oncor's net income and cash flows

Oncor is also exposed to credit risk associated with the note receivable from TCEH totaling \$289 million (\$35 million reported as current in trade accounts and other receivables from affiliates) at December 31, 2008 (see Note 18 to Financial Statements for additional information).

Table of Contents

FORWARD-LOOKING STATEMENTS

This report and other presentations made by Oncor contain “forward-looking statements” within the meaning of Section 21E of the Securities Exchange Act of 1934, as amended. All statements, other than statements of historical facts, that are included in this report, or made in presentations, in response to questions or otherwise, that address activities, events or developments that Oncor expects or anticipates to occur in the future, including such matters as projections, capital allocation, future capital expenditures, business strategy, competitive strengths, goals, future acquisitions or dispositions, development or operation of facilities, market and industry developments and the growth of Oncor’s business and operations (often, but not always, through the use of words or phrases such as “will likely result”, “are expected to”, “will continue”, “is anticipated”, “estimated”, “projection”, “target” and “outlook”), are forward-looking statements. Although Oncor believes that in making such forward-looking statement its expectations are based on reasonable assumptions, any such forward-looking statement involves uncertainties and is qualified in its entirety by reference to the discussion of risk factors discussed under “Risk Factors” and the following important factors, among others, that could cause the actual results of Oncor to differ materially from those projected in such forward-looking statements:

- prevailing governmental policies and regulatory actions, including those of the Texas Legislature, the Governor of Texas, the FERC, the PUCT, the EPA, and the TCEQ, with respect to:
 - allowed rate of return;
 - permitted capital structure;
 - industry, market and rate structure;
 - recovery of investments;
 - acquisitions and disposals of assets and facilities;
 - operation and construction of facilities;
 - changes in tax laws and policies, and
 - changes in and compliance with environmental and safety laws and policies;
- legal and administrative proceedings and settlements;
- weather conditions and other natural phenomena, and acts of sabotage, wars or terrorist activities;
- unanticipated population growth or decline, and changes in market demand and demographic patterns;
- changes in business strategy, development plans or vendor relationships;
- unanticipated changes in interest rates or rates of inflation;
- unanticipated changes in operating expenses, liquidity needs and capital expenditures;
- the credit quality and/or inability of various counterparties to meet their financial obligations to Oncor, including failure of counterparties to perform under agreements;
- general industry trends;
- hazards customary to the industry and the possibility that Oncor may not have adequate insurance to cover losses resulting from such hazards;
- changes in technology used by and services offered by Oncor;
- significant changes in Oncor’s relationship with its employees, including the availability of qualified personnel, and the potential adverse effects if labor disputes or grievances were to occur;
- changes in assumptions used to estimate costs of providing employee benefits, including pension and OPEB benefits, and future funding requirements related thereto;
- significant changes in critical accounting policies material to Oncor;

- commercial bank and financial market conditions, Oncor's access to capital, the cost of such capital, and the results of Oncor's financing and refinancing efforts, including availability of funds in the capital markets;
- financial restrictions placed on Oncor by Oncor's revolving credit facility and indentures governing its debt instruments;
- Oncor's ability to generate sufficient cash flow to make interest payments on its debt instruments;
- actions by credit rating agencies
- economic conditions, and
- the ability of Oncor to effectively execute its operational strategy.

38

Table of Contents

Any forward-looking statement speaks only as of the date on which it is made, and Oncor undertakes no obligation to update any forward-looking statement to reflect events or circumstances after the date on which it is made or to reflect the occurrence of unanticipated events. New factors emerge from time to time, and it is not possible for Oncor to predict all of them; nor can Oncor assess the impact of each such factor or the extent to which any factor, or combination of factors, may cause results to differ materially from those contained in any forward-looking statement.

Table of Contents

Item 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA **REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

To the Board of Directors and Members of Oncor Electric Delivery Company LLC:

We have audited the accompanying consolidated balance sheets of Oncor Electric Delivery Company LLC and subsidiary (the "Company") as of December 31, 2008 and 2007 (successor), and the related statements of consolidated income, comprehensive income, cash flows, membership interests and shareholder's equity for the year ended December 31, 2008 (successor), the period from October 11, 2007 through December 31, 2007 (successor), the period from January 1, 2007 through October 10, 2007 (predecessor) and the year ended December 31, 2006 (predecessor). These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of Oncor Electric Delivery Company LLC and subsidiary as of December 31, 2008 and 2007 (successor), and the results of their operations and their cash flows for the year ended December 31, 2008 (successor), the period from October 11, 2007 through December 31, 2007 (successor), the period from January 1, 2007 through October 10, 2007 (predecessor) and the year ended December 31, 2006 (predecessor), in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 1 to the consolidated financial statements, Oncor Electric Delivery Company LLC was an indirect wholly-owned subsidiary of EFH Corp. (formerly TXU Corp.), which was merged with Texas Energy Future Merger Sub Corp. on October 10, 2007.

/s/ Deloitte & Touche LLP

Dallas, Texas
March 2, 2009

Table of Contents

ONCOR ELECTRIC DELIVERY COMPANY LLC STATEMENTS OF CONSOLIDATED INCOME (LOSS) (millions of dollars)

	Successor		Predecessor	
	Year Ended December 31, 2008	Period from October 11, 2007 through December 31, 2007	Period from January 1, 2007 through October 10, 2007	Year Ended December 31, 2006
Operating revenues:				
Affiliated	\$ 1,000	\$ 209	\$ 823	\$ 1,139
Nonaffiliated	1,580	324	1,144	1,310
Total operating revenues	2,580	533	1,967	2,449
Operating expenses:				
Operation and maintenance	852	200	649	804
Depreciation and amortization	492	96	366	476
Provision for/in lieu of income taxes	195	25	150	156
Taxes other than amounts related to income taxes	391	87	305	402
Total operating expenses	1,930	408	1,470	1,838
Operating income	650	125	497	611
Other income and deductions:				
Impairment of goodwill (Note 3)	860	—	—	—
Other income (Note 19)	45	11	3	2
Other deductions (Note 19)	25	8	30	27
Nonoperating provision for/in lieu of income taxes	26	6	9	14
Interest income	45	12	44	58
Interest expense and related charges (Note 19)	316	70	242	286
Net income (loss)	\$ (487)	\$ 64	\$ 263	\$ 344

See Notes to Financial Statements.

STATEMENTS OF CONSOLIDATED COMPREHENSIVE INCOME (LOSS) (millions of dollars)

	Successor		Predecessor	
	Year Ended December 31, 2008	Period from October 11, 2007 through December 31, 2007	Period from January 1, 2007 through October 10, 2007	Year Ended December 31, 2006
Net income (loss)	\$ (487)	\$ 64	\$ 263	\$ 344
Other comprehensive income, net of tax effects:				
Cash flow hedges:				
Net decrease in fair value of derivatives (net of tax benefit of \$1, —, — and —)	(2)	—	—	—
Cash flow hedges — derivative value net losses related to hedged transactions recognized during the period in net income (net of tax expense of \$— in all periods)	—	—	1	2
Comprehensive income (loss)	\$ (489)	\$ 64	\$ 264	\$ 346

See Notes to Financial Statements.

Table of Contents

ONCOR ELECTRIC DELIVERY COMPANY LLC STATEMENTS OF CONSOLIDATED CASH FLOWS (millions of dollars)

	Successor		Predecessor	
	Year Ended December 31, 2008	Period from October 11, 2007 through December 31, 2007	Period from January 1, 2007 through October 10, 2007	Year Ended December 31, 2006
Cash flows — operating activities:				
Net income (loss)	\$ (487)	\$ 64	\$ 263	\$ 344
Adjustments to reconcile net income to cash provided by operating activities:				
Depreciation and amortization	451	95	366	473
Provision for/in lieu of deferred income taxes – net	163	71	21	27
Amortization of investment tax credits	(5)	(1)	(4)	(5)
Impairment of goodwill (Note 3)	860	—	—	—
Net gains on sale of assets	(1)	(1)	(3)	—
Bad debt expense	1	(2)	2	1
Stock-based incentive compensation expense	—	—	3	4
Recognition of losses on dedesignated cash flow hedges	—	—	2	2
Other, net	6	4	2	1
Changes in operating assets and liabilities:				
Accounts receivable – trade (including affiliates)	(2)	39	(47)	3
Impact of accounts receivable sales program (Note 9)	—	(113)	27	(3)
Inventories	(12)	6	19	(22)
Accounts payable – trade (including affiliates)	6	(3)	8	(16)
Other – assets	(137)	(32)	(24)	(56)
Other – liabilities	(15)	(62)	47	(125)
Cash provided by operating activities	828	65	682	628
Cash flows — financing activities:				
Issuance of long-term debt	1,500	—	800	—
Repayments of long-term debt	(99)	(832)	(264)	(93)
Net increase (decrease) in short-term borrowings	(943)	895	(288)	622
Issuance of equity interests (net of closing costs)	1,253	—	—	—
Distribution to parent of equity sale net proceeds	(1,253)	—	—	—
Distributions/dividends	(330)	—	(326)	(340)
Net increase (decrease) in advances from parent	—	—	(24)	2
Decrease in income tax-related note receivable from TCEH	34	9	24	39
Excess tax benefit on stock-based incentive compensation	10	15	—	14
Debt discount, financing and reacquisition expenses – net	(18)	(1)	(10)	(4)
Cash provided by (used in) financing activities	154	86	(88)	240
Cash flows — investing activities:				
Capital expenditures	(882)	(153)	(555)	(840)
Costs to remove retired property	(37)	(9)	(25)	(40)
Cash settlements related to outsourcing contract termination (Note 15)	20	—	—	—
Proceeds from sale of assets	1	1	4	—
Other	19	15	(2)	(2)
Cash used in investing activities	(879)	(146)	(578)	(882)
Net change in cash and cash equivalents	103	5	16	(14)
Cash and cash equivalents – beginning balance	22	17	1	15
Cash and cash equivalents – ending balance	\$ 125	\$ 22	\$ 17	\$ 1

See Notes to Financial Statements.

Table of Contents

ONCOR ELECTRIC DELIVERY COMPANY LLC CONSOLIDATED BALANCE SHEETS (millions of dollars)

	Successor	
	December 31, 2008	December 31, 2007
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 125	\$ 22
Restricted cash (Note 14)	51	56
Trade accounts receivable from nonaffiliates — net (Note 9)	217	208
Trade accounts and other receivables from affiliates	182	180
Amounts receivable from parent related to income taxes	21	29
Materials and supplies inventories — at average cost	63	51
Accumulated deferred income taxes (Note 7)	—	45
Prepayments	75	67
Other current assets	8	3
Total current assets	<u>742</u>	<u>661</u>
Restricted cash (Note 14)	16	17
Investments and other property (Note 14)	72	89
Property, plant and equipment — net (Note 19)	8,606	8,069
Goodwill (Note 19)	4,064	4,894
Note receivable due from TCEH (Note 18)	254	289
Regulatory assets — net (Note 8)	1,892	1,305
Other noncurrent assets	60	110
Total assets	<u>\$ 15,706</u>	<u>\$ 15,434</u>
LIABILITIES AND MEMBERSHIP INTERESTS		
Current liabilities:		
Short-term borrowings (Note 10)	\$ 337	\$ 1,280
Long-term debt due currently (Note 11)	103	99
Trade accounts payable	124	129
Accrued taxes other than amounts related to income taxes	141	136
Accrued interest	103	72
Other current liabilities	99	99
Total current liabilities	<u>907</u>	<u>1,815</u>
Accumulated deferred income taxes (Note 7)	—	1,354
Liability in lieu of deferred income taxes (Notes 1 and 7)	1,434	—
Investment tax credits	42	47
Long-term debt, less amounts due currently (Note 11)	5,101	3,702
Other noncurrent liabilities and deferred credits	1,423	898
Total liabilities	<u>8,907</u>	<u>7,816</u>
Commitments and contingencies (Note 12)		
Membership interests (Note 13)	6,799	7,618
Total liabilities and membership interests	<u>\$ 15,706</u>	<u>\$ 15,434</u>

See Notes to Financial Statements.