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ONCOR ELECTRIC DELIVERY COMPANY LLC STATEMENTS OF CONSOLIDATED MEMBERSHIP INTERESTS (millions of dollars)

	Successor	
	Year Ended December 31, 2008	Period from October 11, 2007 through December 31, 2007
Capital account:		
Balance at beginning of period (a)	\$ 7,618	\$ 7,514
Investment by Texas Holdings	—	12
Settlement of incentive compensation plans	—	28
Proceeds (net of closing costs) from sale of equity interests	1,253	—
Distributions paid to parent	(1,583)	—
Net income (loss)	(487)	64
Balance at end of period (number of interests outstanding: December 31, 2008 — 635 million; 2007 — 1)	6,801	7,618
Accumulated other comprehensive income (loss), net of tax effects:		
Balance at beginning of period	—	—
Net effects of cash flow hedges	(2)	—
Balance at end of period	(2)	—
Total membership interests at end of period	\$ 6,799	\$ 7,618

- (a) The beginning equity balance for the period from October 11, 2007 through December 31, 2007 reflects the application of push-down accounting as a result of the Merger.

See Notes to Financial Statements.

STATEMENTS OF CONSOLIDATED SHAREHOLDER'S EQUITY (millions of dollars)

	Predecessor	
	Period from January 1, 2007 through October 10, 2007	Year Ended December 31, 2006
Common stock without par value (number of authorized shares — 100,000,000):		
Balance at beginning of period	\$ 1,986	\$ 1,952
Effects of stock-based incentive compensation plans (Note 13)	18	19
Noncash contribution of pension-related assets (Note 13)	—	15
Balance at end of period (number of shares outstanding: October 10, 2007 — 0; 2006 and 2005 — 48,864,775)	2,004	1,986
Retained earnings:		
Balance at beginning of period	1,008	1,004
Net income	263	344
Dividends to parent	(326)	(340)
Effect of adoption of FIN 48	(9)	—
Other	1	—
Balance at end of period	937	1,008
Accumulated other comprehensive (loss), net of tax effects:		
Balance at beginning of period	(19)	(21)
Net effects of cash flow hedges	1	2
Balance at end of period	(18)	(19)
Total shareholder's equity at end of period	\$ 2,923	\$ 2,975

See Notes to Financial Statements.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****1. SIGNIFICANT ACCOUNTING POLICIES*****Description of Business***

Oncor is a regulated electricity transmission and distribution company principally engaged in providing delivery services to REPs, including subsidiaries of TCEH, that sell power in the north-central, eastern and western parts of Texas. Distribution revenues from TCEH represented 39% of Oncor's total revenues for the year ended December 31, 2008. 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. With the closing of the Merger on October 10, 2007, EFH Corp. became a subsidiary of Texas Holdings, which is controlled by the Sponsor Group.

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.

Various "ring-fencing" measures have been taken in connection with the Merger to enhance the credit quality of Oncor. Such measures include, among other things: TXU Electric Delivery Company's name change to Oncor Electric Delivery Company; the formation of a new special purpose holding company for Oncor, Oncor Holdings, as one of the Oncor Ring-Fenced Entities; the conversion of Oncor from a corporation to a limited liability company; maintenance of separate books and records for the Oncor Ring-Fenced Entities; changes to Oncor's corporate governance provisions; appointment of a majority of independent directors to Oncor's board of directors; physical separation of Oncor's headquarters from Luminant and TXU Energy; amendments to contracts between the Oncor Ring-Fenced Entities and the Texas Holdings Group, and prohibitions on the Oncor Ring-Fenced Entities' providing credit support to, or receiving credit support from, any member of the Texas Holdings Group. The assets and liabilities of the Oncor Ring-Fenced Entities are separate and distinct from those of the Texas Holdings Group, including TXU Energy and Luminant, and none of the assets of the Oncor Ring-Fenced Entities are available to satisfy the debt or other obligations of any member of the Texas Holdings Group. Moreover, the cash flows of the Oncor Ring-Fenced Entities and their results of operations are separate from those of the Texas Holdings Group.

Oncor is managed as an integrated business; consequently, there are no separate reportable business segments.

Sale of Minority Interests

On November 5, 2008, Oncor issued and sold additional equity interests to Texas Transmission. 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.

Texas Transmission acquired the equity interests for \$1.254 billion in cash. At the closing of the sale, Oncor also offered and sold additional equity interests to Investment LLC, an entity owned by certain members of Oncor's management team, for a total of \$13 million in cash (the same price per unit paid by Texas Transmission). Accordingly, the equity issuances in 2008 resulted in EFH Corp. indirectly owning 80.04% of Oncor, certain members of Oncor management indirectly owning 0.21% of Oncor and Texas Transmission owning 19.75% of Oncor.

The proceeds (net of closing costs) of \$1.253 billion received by Oncor from Texas Transmission and the members of Oncor management upon completion of these transactions were distributed to Oncor Holdings and ultimately to EFH Corp.

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In addition to the sale of equity interests to management, Oncor also implemented a stock appreciation rights plan (SARs Plan) for certain management that purchased equity interests in Oncor indirectly through their investment in Investment LLC. The SARs Plan provides that the exercise of a SAR is subject to the occurrence of certain liquidity events. Upon exercise of a SAR, Oncor will pay to the management holder the difference between the base price of the SAR as of the date of grant and the fair market value of a unit of equity interest in Oncor at the time of exercise. Oncor also has the right to repurchase the SAR if the management holder's employment with Oncor is terminated. See Note 17.

Basis of Presentation

The consolidated financial statements of Oncor have been prepared in accordance with US GAAP. The accompanying consolidated statements of income, comprehensive income and cash flows present results of operations and cash flows of Oncor for "Successor" and "Predecessor" periods, which relate to periods succeeding and preceding the Merger, respectively. The consolidated financial statements have been prepared on substantially 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. See discussion of the change in presentation of amounts related to income taxes discussed immediately below. The consolidated financial statements of the Successor reflect the application of purchase accounting in accordance with the provisions of SFAS 141. All intercompany items and transactions have been eliminated in consolidation. All dollar amounts in the financial statements and tables in the notes are stated in millions of US dollars unless otherwise indicated.

Income Taxes

EFH Corp. files a consolidated federal income tax return, and federal income taxes were allocated to subsidiaries, including Oncor, based on their respective taxable income or loss. Oncor became a partnership for US federal income tax purposes effective with the minority interests sale transactions, and prospectively EFH Corp.'s share of partnership income will be included in their consolidated federal income tax return. 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) that is retroactive to January 1, 2007. The tax sharing agreement provides for the allocation of tax liability to each of Oncor Holdings and Oncor substantially as if these entities were stand-alone corporations and requires tax payments to EFH Corp. and minority interest holders determined on that basis (without duplication for any income taxes paid by a subsidiary of Oncor Holdings). 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. Investment tax credits are amortized to income over the estimated lives of the related properties.

Prior to 2007, Oncor generally accounted for uncertainty related to positions taken on tax returns based on the probable liability approach consistent with SFAS 5. Effective January 1, 2007, Oncor adopted FIN 48 as discussed in Note 6.

Use of Estimates

Preparation of Oncor's 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 the reported amounts of revenue and expense, including fair value measurements. In the event estimates and/or assumptions prove to be different from actual amounts, adjustments are made in subsequent periods to reflect more current information. No material adjustments, other than those disclosed elsewhere herein, were made to previous estimates or assumptions during the current year.

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Purchase Accounting

The Merger has been accounted for under purchase accounting, whereby the total purchase price of the transaction was allocated to EFH Corp.'s identifiable tangible and intangible assets acquired and liabilities assumed based on their fair values, and the excess of the purchase price over the fair value of net assets acquired was recorded as goodwill. The allocation resulted in a significant amount of goodwill, a portion of which was assigned to Oncor. See Note 2 for details regarding the effect of purchase accounting.

Derivative Instruments and Mark-to-Market Accounting

Oncor has from time-to-time entered into derivative instruments, referred to as interest rate swaps, to hedge interest rate risk. If the instrument meets the definition of a derivative under SFAS 133, the fair value of each derivative is required to be recognized on the balance sheet as a derivative asset or liability and changes in the fair value recognized in net income, unless criteria for certain exceptions are met. This recognition is referred to as "mark-to-market" accounting. Under the exception criteria of SFAS 133, Oncor may elect to designate derivatives as a cash flow or fair value hedges.

Because derivative instruments are frequently used as economic hedges, SFAS 133 allows the designation of such instruments as cash flow or fair value hedges provided certain conditions are met. A cash flow hedge mitigates the risk associated with the variability of the future cash flows related to an asset or liability (e.g., debt with variable interest rate payments), while a fair value hedge mitigates risk associated with fixed future cash flows (e.g., debt with fixed interest rate payments). In accounting for cash flow hedges, derivative assets and liabilities are recorded on the balance sheet at fair value with an offset to other comprehensive income to the extent the hedges are effective. Amounts remain in accumulated other comprehensive income, unless the underlying transactions become probable of not occurring, and are reclassified into net income as the related transactions (hedged items) settle and affect net income. Fair value hedges are recorded as derivative assets or liabilities with an offset to net income, and the carrying value of the related asset or liability (hedged item) is adjusted for changes in fair value with an offset to net income. If the fair value hedge is settled prior to the maturity of the hedged item, the cumulative fair value gain or loss associated with the hedge is amortized into income over the remaining life of the hedged item. To qualify for hedge accounting, a hedge must be considered highly effective in offsetting changes in fair value of the hedged item. Assessment of the hedge's effectiveness is tested at least quarterly throughout its term to continue to qualify for hedge accounting. Hedge ineffectiveness, even if the hedge continues to be assessed as effective, is immediately recognized in net income. Ineffectiveness is generally measured as the cumulative excess, if any, of the change in value of the hedging instrument over the change in value of the hedged item.

Revenue Recognition

Oncor records revenue from delivery services under the accrual method of accounting. Revenues are recognized when delivery services are provided to customers on the basis of periodic cycle meter readings and include an estimate for revenues earned from the meter reading date to the end of the period with an adjustment for the impact of weather and other factors on unmetered deliveries (unbilled revenue).

Impairment of Goodwill and Other Intangible Assets

Oncor evaluates goodwill for impairment at least annually (as of October 1) in accordance with SFAS 142. The impairment tests performed are based on determinations of enterprise value using discounted cash flow analyses, comparable company equity values and any relevant transactions indicative of enterprise values. See Note 19 for details of goodwill and other intangible assets and Note 3 for discussion of a goodwill impairment charge recorded in 2008.

System of Accounts

The accounting records of Oncor have been maintained in accordance with the FERC Uniform System of Accounts as adopted by the PUCT.

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Defined Benefit Pension Plans and Other Postretirement Employee Benefit (OPEB) Plans

Oncor participates in an EFH Corp. pension plan that offers benefits based on either a traditional defined benefit formula or a cash balance formula and an OPEB plan that offers certain health care and life insurance benefits to eligible employees and their eligible dependents upon the retirement of such employees from Oncor. Costs of pension and OPEB plans are determined in accordance with SFAS 87 and SFAS 106 and are dependent upon numerous factors, assumptions and estimates. Effective December 31, 2006, Oncor adopted SFAS 158. See Note 16 for additional information regarding pension and OPEB plans.

Stock-Based Incentive Compensation

Prior to the Merger, EFH Corp. provided discretionary awards payable in its common stock to qualified managerial employees of Oncor under EFH Corp.'s shareholder-approved long-term incentive plans. Oncor recognized expense for these awards based on the provisions of SFAS 123R, which provides for the recognition of stock-based compensation expense over the vesting period based on the grant-date fair value of those awards. In November 2008, Oncor implemented a SARs Plan for certain management that purchased equity interests in Oncor indirectly by investing in Investment LLC. SARs have been awarded under the plan and are being accounted for based upon the provisions of SFAS 123R. See Note 17 for information regarding stock-based compensation.

Fair Value of Nonderivative Financial Instruments

The carrying amounts for financial assets classified as current assets and the carrying amounts for financial liabilities classified as current liabilities approximate fair value due to the short maturity of such instruments. The fair values of other financial instruments, for which carrying amounts and fair values have not been presented, are not materially different than their related carrying amounts.

Franchise Taxes

Franchise taxes are assessed to Oncor by local governmental bodies, based on kWh delivered and are the principal component of "taxes other than amounts related to income taxes" as reported in the income statement. Franchise taxes are not a "pass through" item. Rates charged to customers by Oncor are intended to recover the taxes, but Oncor is not acting as an agent to collect the taxes from customers.

Cash and Cash Equivalents

For purposes of reporting cash and cash equivalents, temporary cash investments purchased with a remaining maturity of three months or less are considered to be cash equivalents. See Note 14 for details regarding restricted cash.

Property, Plant and Equipment

Properties are stated at original cost. The cost of self-constructed property additions includes materials and both direct and indirect labor and applicable overhead and an allowance for funds used during construction.

Depreciation of Oncor's property, plant and equipment is calculated on a straight-line basis over the estimated service lives of the properties based on depreciation rates approved by the PUCT. Depreciation rates include plant removal costs as a component of depreciation expense, consistent with regulatory treatment. As is common in the industry, Oncor records depreciation expense using composite depreciation rates that reflect blended estimates of the lives of major asset components as compared to depreciation expense calculated on an asset-by-asset basis.

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Allowance For Funds Used During Construction (AFUDC)

AFUDC is a regulatory cost accounting procedure whereby both interest charges on borrowed funds and a return on equity capital used to finance construction are included in the recorded cost of utility plant and equipment being constructed. AFUDC is capitalized on all projects involving construction periods lasting greater than thirty days. The equity portion of capitalized AFUDC is accounted for as other income. See Note 19 for detail of amounts charged to interest expense; there was no equity AFUDC in the years presented.

Regulatory Assets and Liabilities

The financial statements of Oncor reflect regulatory assets and liabilities under cost-based rate regulation in accordance with SFAS 71. 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 for details of regulatory assets and liabilities.

Changes in Accounting Standards

In December 2007, the FASB issued SFAS 160, "Noncontrolling Interests in Consolidated Financial Statements – an amendment of ARB No. 51." SFAS 160 is effective for fiscal years beginning on or after December 15, 2008 and will require noncontrolling interests (now called minority interests) in subsidiaries initially to be measured at fair value and classified as a separate component of equity. Provisions are to be applied prospectively. Early adoption is prohibited. The application of the provisions of SFAS 160 is not expected to materially affect Oncor.

In December 2008, the FASB issued FSP SFAS 132(R)-1, "Employers' Disclosures about Postretirement Benefit Plan Assets." This FSP amends SFAS 132(R) to provide enhanced disclosures regarding how investment allocation decisions are made and certain aspects of fair value measurements on plan assets. The disclosures required by this FSP are intended to provide transparency related to the types of assets and associated risks in an employer's defined benefit pension or other postretirement employee benefits plan and events in the economy and markets that could have a significant effect on the value of plan assets. This FSP is effective for fiscal years ending after December 15, 2009. As the FSP provides only disclosure requirements, the adoption of this FSP will not have any effect on Oncor's reported results of operations, financial condition or cash flows. Oncor is evaluating the impact of this FSP on its financial statement disclosures.

2. FINANCIAL STATEMENT EFFECTS OF THE MERGER

EFH Corp. accounted for the Merger under purchase accounting in accordance with the provisions of SFAS 141, whereby the total purchase price of the transaction was allocated to EFH Corp.'s identifiable tangible and intangible assets acquired and liabilities assumed based on their fair values as of October 10, 2007. As a result of cost-based regulatory rate-setting processes, the book value of the majority of Oncor's assets and liabilities effectively represents fair value, and no adjustments to the carrying value of those regulated assets or liabilities were recorded. The excess of the purchase price over the fair value of net assets acquired was recorded as goodwill. The purchase price was allocated to TCEH and Oncor. The purchase price amount assigned to Oncor was based on the relative enterprise value of the business on the closing date of the Merger and resulted in an excess of purchase price over fair value of assets and liabilities of \$4.9 billion, which was recorded as goodwill. See Note 19 for disclosures related to goodwill and Note 3 regarding an impairment charge recorded in the fourth quarter of 2008.

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The following table summarizes the final purchase price allocation to the estimated fair values of the assets acquired and liabilities assumed (billions of dollars):

Purchase price assigned to Oncor	\$7.6
Property, plant and equipment	7.9
Regulatory assets – net	1.3
Other assets	1.3
Total assets acquired	10.5
Short-term borrowings and long-term debt	5.1
Deferred income tax liabilities	1.3
Other liabilities	1.4
Total liabilities assumed	7.8
Net identifiable assets acquired	2.7
Goodwill	\$4.9

As part of purchase accounting, the carrying value of certain generation-related regulatory assets securitized by transition bonds, which have been reviewed and approved by the PUCT for recovery but without earning a rate of return, was reduced by \$213 million. Oncor will accrete this amount to other income over the recovery period remaining as of the closing date of the Merger (approximately nine years). The related securitization (transition) bonds were also fair valued and the resulting discount of \$12 million will be amortized to interest expense over the life of the bonds remaining as of the closing date of the Merger (approximately nine years).

The final purchase price allocation includes \$16 million in liabilities recorded in connection with the notice of termination of outsourcing arrangements with Capgemini under the change of control provisions of such arrangements (also see Note 15). This amount represents estimated incremental costs to exit and transition the services under the arrangements and is expected to be settled no later than June 30, 2011, the targeted date of completion of transition of outsourced activities back to Oncor or to service providers.

3. GOODWILL IMPAIRMENT

In the fourth quarter of 2008, Oncor recorded a goodwill impairment charge totaling \$860 million, which is not deductible for income tax-related purposes. This amount represents management's best estimate of impairment pending finalization of the fair value calculations, which is expected in the first quarter of 2009.

Although the annual goodwill impairment test date set by management is October 1, management determined that in consideration of the continuing deterioration of securities values during the fourth quarter of 2008, an impairment testing trigger occurred subsequent to that test date; consequently, the impairment charge is based on estimated fair values at December 31, 2008.

The impairment determination involves significant assumptions and judgments in estimating enterprise values and the fair values of assets and liabilities. The impairment primarily arises from the dislocation in the capital markets that has increased interest rate spreads and the resulting discount rates used in estimating fair values and the effect of recent declines in market values of debt and equity securities of comparable companies.

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4. STIPULATION APPROVED BY THE PUCT

Oncor and Texas Holdings agreed to the terms of a stipulation, which was conditional upon completion of the Merger, with major interested parties to resolve all outstanding issues in the PUCT review related to the Merger. In February 2008, the PUCT entered an order approving the stipulation. The PUCT issued a final order on rehearing in April 2008 that has been appealed to District Court.

In addition to commitments Oncor made in its filings in the PUCT review, the stipulation included the following provisions, among others:

- Oncor provided a one-time \$72 million refund to its REP customers in the September 2008 billing cycle. The refund was in the form of a credit on distribution fee billings. The liability for the refund was recorded as part of purchase accounting.
- Consistent with the 2006 cities rate settlement (see Note 5), Oncor filed a system-wide rate case in June 2008 based on a test-year ended December 31, 2007.
- Oncor agreed not to request recovery of approximately \$56 million of regulatory assets related to self-insurance reserve costs and 2002 restructuring expenses. These regulatory assets were eliminated as part of purchase accounting.
- The dividends paid by Oncor will be limited through December 31, 2012, to an amount not to exceed Oncor's net income (determined in accordance with GAAP, subject to certain defined adjustments) for the period beginning October 11, 2007 and ending December 31, 2012 and are further limited by an agreement that Oncor's regulatory capital structure, as determined by the PUCT, will 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.
- Oncor committed to minimum capital spending of \$3.6 billion over the five-year period ending December 31, 2012, subject to certain defined conditions.
- Oncor committed to an additional \$100 million in spending over the five-year period ending December 31, 2012 on demand-side management or other energy efficiency initiatives. These additional expenditures will not be recoverable in rates, and this amount was recorded as a regulatory liability as part of purchase accounting and consistent with SFAS 71.
- If Oncor's credit rating is below investment grade with two or more rating agencies, TCEH will post a letter of credit in an amount of \$170 million to secure TXU Energy's payment obligations to Oncor.
- Oncor agreed not to request recovery of the \$4.9 billion of goodwill resulting from purchase accounting or any future impairment of the goodwill in its rates.

5. CITIES RATE SETTLEMENT IN 2006

In January 2006, Oncor agreed with a steering committee representing 108 cities in Texas (Cities) to defer the filing of a system-wide rate case with the PUCT to no later than July 1, 2008 (based on a test year ending December 31, 2007). Oncor filed the rate case with the PUCT in June 2008. Oncor extended the benefits of the agreement to 292 nonlitigant cities. The agreements provided that Oncor would make payments to participating cities totaling approximately \$70 million, including incremental franchise taxes.

This amount was recognized in earnings over the period from May 2006 through June 2008. Amounts recognized totaled \$23 million in 2008, \$8 million for the period October 11, 2007 through December 31, 2007, \$25 million for the period January 1, 2007 through October 10, 2007 and \$18 million in 2006, of which \$13 million, \$6 million, \$20 million and \$13 million, respectively, is reported in other deductions (see Note 19), and the remainder as taxes other than amounts related to income taxes.

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6. ACCOUNTING FOR UNCERTAINTY IN INCOME TAXES (FIN 48)

See discussion in Note 1 under "Income Taxes".

Effective January 1, 2007, Oncor adopted FIN 48. FIN 48 requires that each tax position be reviewed and assessed with recognition and measurement of the tax benefit based on a "more-likely-than-not" standard with respect to the ultimate outcome, regardless of whether this assessment is favorable or unfavorable. Oncor applied FSP FIN 48-1 to determine if each tax position was effectively settled for the purpose of recognizing previously uncertain tax positions. Oncor completed its review and assessment of uncertain tax positions and in the 2007 Predecessor period recorded a net charge to retained earnings and an increase to noncurrent liabilities of \$9 million in accordance with the new accounting rule.

EFH Corp. and its subsidiaries file income tax returns in US federal, state and foreign jurisdictions and are subject to examinations by the IRS and other taxing authorities. Examinations of income tax returns filed by EFH Corp. and any of its subsidiaries for the years ending prior to January 1, 2003 are complete. In the fourth quarter 2008, EFH Corp. was notified of the commencement of the IRS audit of tax years 2003 to 2006. The audit is expected to require two years to complete. Texas franchise tax return periods under examination or still open for examination range from 2003 to 2007.

Oncor classifies interest and penalties expense related to uncertain tax positions as provision for/in lieu of income taxes. The amount of interest and penalties expense totaled \$6 million in 2008, \$2 million for the period October 11, 2007 through December 31, 2007 and \$3 million for the period January 1, 2007 through October 10, 2007. Noncurrent liabilities included a total of \$22 million and \$12 million in accrued interest at December 31, 2008 and 2007, respectively. These interest amounts are after-tax.

The following table summarizes the changes to the uncertain tax positions, reported in other noncurrent liabilities in the consolidated balance sheet, during the years ended December 31, 2008 and 2007:

	2008	2007
Balance at January 1, excluding interest and penalties	\$ 111	\$ 80
Additions based on tax positions related to prior years	41	38
Reductions based on tax positions related to prior years	(30)	(15)
Additions based on tax positions related to the current year	—	8
Balance at December 31, excluding interest and penalties	\$ 122	\$ 111

Of the balance at December 31, 2008, \$100 million represents tax positions for which the uncertainty relates to the timing of recognition for tax purposes. The disallowance of such positions would not affect the effective tax rate, but would accelerate the payment of cash under the tax sharing agreement to an earlier period.

With respect to tax positions for which the ultimate deductibility is uncertain (permanent items), should EFH Corp. sustain such positions on income tax returns previously filed, Oncor's liabilities recorded would be reduced by \$22 million, resulting in increased net income and a favorable impact on the effective tax rate.

Oncor does not expect that the total amount of liabilities recorded related to uncertain tax positions will significantly increase or decrease within the next 12 months.

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7. AMOUNTS RELATED TO INCOME TAXES

See discussion in Note 1 under "Income Taxes".

The components of Oncor's reported provision for/in lieu of income taxes are as follows:

	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
Reported in operating expenses				
Current:				
US federal	\$ 38	\$ (46)	\$ 116	\$ 127
State	17	—	12	6
Deferred:				
US federal	145	74	26	28
State	—	(2)	—	—
Amortization of investment tax credits	(5)	(1)	(4)	(5)
Total	195	25	150	156
Reported in other income and deductions:				
Current:				
US federal	8	7	8	18
State	1	—	1	(3)
Deferred federal	17	(1)	—	(1)
Total	26	6	9	14
Total provision for/in lieu of income taxes	\$ 221	\$ 31	\$ 159	\$ 170

Reconciliation of provision for/in lieu of income taxes computed at the US federal statutory rate to provision for/in lieu of income taxes:

	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
Income (loss) before provision for/in lieu of income taxes	\$ (266)	\$ 95	\$ 422	\$ 514
Provision for/in lieu of income taxes at the US federal statutory rate of 35%	\$ (93)	\$ 33	\$ 148	\$ 180
Goodwill impairment	301	—	—	—
Amortization of investment tax credits – net of deferred tax effect	(5)	(1)	(4)	(5)
Amortization (under regulatory accounting) of statutory tax rate changes	(3)	(1)	(3)	(7)
State income taxes, net of federal tax benefit	11	(1)	8	4
Medicare subsidy	(5)	(2)	(5)	(6)
Non-deductible losses (gains) on benefit plan investments	4	—	(2)	(2)
Other, including audit settlements	11	3	17	6
Reported provision for/in lieu of income taxes	\$ 221	\$ 31	\$ 159	\$ 170
Effective rate	—	32.6%	37.7%	33.1%

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The components of Oncor's net deferred income tax liability at December 31, 2007 are as follows:

	Successor		
	December 31, 2007		
	Total	Current	Noncurrent
Deferred income tax assets			
Employee benefit liabilities	\$ 328	\$ 7	\$ 321
Alternative minimum tax credit carryforwards	65	35	30
Regulatory liabilities	111	—	111
Other	7	3	4
Total	511	45	466
Deferred income tax liabilities			
Property, plant and equipment	1,138	—	1,138
Regulatory assets	680	—	680
Other	2	—	2
Total	1,820	—	1,820
Net deferred income tax liability (asset)	\$ 1,309	\$ (45)	\$ 1,354

The net amount of \$1.434 billion reported in the balance sheet at December 31, 2008 as liability in lieu of deferred income taxes represents amounts previously recorded as net deferred tax liabilities of Oncor. Upon the sale of minority interests in Oncor (see Note 1), Oncor became a partnership for US federal income tax purposes, and the temporary differences which gave rise to the deferred taxes will, over time, become taxable to the equity holders. Under a tax sharing agreement among Oncor and its equity holders, Oncor reimburses the equity holders for income taxes as the partnership earnings become taxable to the equity holders. Accordingly, as the temporary differences become taxable, the equity holders will be reimbursed by Oncor. In the unlikely event such amounts are not reimbursed under the tax sharing agreement, it is probable that they would be reimbursed to rate payers.

At December 31, 2008, Oncor had \$54 million of alternative minimum tax (AMT) credit carryforwards available to offset future tax sharing payments. The AMT credit carryforwards have no expiration date.

See Note 6 for discussion regarding accounting for uncertain tax positions (FIN 48)

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	Successor December 31,	
	2008	2007
Regulatory assets		
Generation-related regulatory assets securitized by transition bonds	\$ 865	\$ 967
Employee retirement costs	659	265
Self-insurance reserve (primarily storm recovery costs)	214	149
Nuclear decommissioning cost under-recovery	127	—
Securities reacquisition costs	97	105
Recoverable deferred income taxes — net	77	84
Employee severance costs	20	20
Other	12	3
Total regulatory assets	<u>2,071</u>	<u>1,593</u>
Regulatory liabilities		
Committed spending for demand-side management initiatives	96	100
Investment tax credit and protected excess deferred taxes	49	55
Over-collection of securitization (transition) bond revenues	28	34
Credit due REPs under PUCT stipulation	—	72
Nuclear decommissioning cost over-recovery	—	13
Other regulatory liabilities	6	14
Total regulatory liabilities	<u>179</u>	<u>288</u>
Net regulatory assets	<u>\$ 1,892</u>	<u>\$ 1,305</u>

Regulatory assets that have been reviewed and approved by the PUCT and are not earning a return totaled \$1.021 billion and \$997 million at December 31, 2008 and 2007, respectively, including the generation-related regulatory assets securitized by transition bonds that have a remaining recovery period of approximately eight years. See Note 4 for discussion of effects on regulatory assets and liabilities of the stipulation approved by the PUCT.

As of December 31, 2008, regulatory assets totaling \$913 million have not been reviewed by the PUCT but are deemed by management to be probable of recovery.

See Note 18 for additional information regarding nuclear decommissioning cost recovery.

9. TRADE ACCOUNTS RECEIVABLE AND SALE OF RECEIVABLES PROGRAM**Trade Accounts Receivable**

	Successor December 31,	
	2008	2007
Gross trade accounts receivable	\$ 359	\$ 361
Trade accounts receivable from TCEH	(135)	(147)
Allowance for uncollectible accounts	(7)	(6)
Trade accounts receivable from nonaffiliates — net	<u>\$ 217</u>	<u>\$ 208</u>

Gross trade accounts receivable at December 31, 2008 and 2007 included unbilled revenues of \$140 million and \$137 million, respectively.

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Sale of Receivables

Prior to the Merger, Oncor participated in an accounts receivable securitization program established by EFH Corp. for certain of its subsidiaries, the activity under which was accounted for as a sale of accounts receivable in accordance with SFAS 140. Under the program, Oncor sold trade accounts receivable to TXU Receivables Company, a consolidated wholly-owned bankruptcy-remote direct subsidiary of EFH Corp., which sold undivided interests in those purchased accounts receivable for cash to special purpose entities established by financial institutions (the funding entities). In connection with the Merger, the accounts receivable securitization program was amended. Concurrently, the financial institutions required that Oncor repurchase all of the receivables it had previously sold to TXU Receivables Company, which totaled \$254 million. Oncor funded such repurchases through borrowings under its credit facility of \$113 million, and the related subordinated note receivable from TXU Receivables Company in the amount of \$141 million was canceled. Oncor is no longer a participant in the accounts receivable securitization program.

Under the program, new trade receivables generated by Oncor were continuously purchased by TXU Receivables Company with the proceeds from collections of receivables previously purchased. Changes in the amount of funding under the program, through changes in the amount of undivided interests sold by TXU Receivables Company, reflected seasonal variations in the level of accounts receivable, changes in collection trends as well as other factors such as changes in delivery fees and volumes. TXU Receivables Company issued subordinated notes payable to Oncor for the difference between the face amount of the uncollected accounts receivable purchased, less a discount, and cash paid to Oncor that was funded by the sale of the undivided interests.

The discount from face amount on the purchase of receivables principally funded program fees paid by TXU Receivables Company to the funding entities. The discount also funded a servicing fee paid by TXU Receivables Company to EFH Corporate Services Company, a direct subsidiary of EFH Corp., but the amounts were immaterial. The program fees, referred to as losses on sale of the receivables under SFAS 140, consisted primarily of interest costs on the underlying financing. These fees represented essentially all of the net incremental costs of the program to Oncor and were reported in operation and maintenance expenses. Fee amounts were as follows:

	Predecessor	
	Period from January 1, 2007 through October 10, 2007	Year Ended December 31, 2006
Program fees	\$ 6	\$ 6
Program fees as a percentage of average funding (annualized)	6.4%	5.8%

Funding under the program decreased \$86 million to zero in 2007 with Oncor's exit from the program and decreased \$3 million to \$86 million in 2006. Funding increases or decreases under the program were reflected as operating cash flow activity in the statement of cash flows. The carrying amount of the retained interests in the accounts receivable balance approximated fair value due to the short-term nature of the collection period.

Activities of TXU Receivables Company related to Oncor in 2007 and 2006 were as follows:

	Successor (a)	Predecessor	
	Period from October 11, 2007 through December 31, 2007	Period from January 1, 2007 through October 10, 2007	Year Ended December 31, 2006
Cash collections on accounts receivable	\$ —	\$ 1,082	\$ 1,229
Face amount of new receivables purchased	—	(1,156)	(1,231)
Discount from face amount of purchased receivables	—	5	6
Program fees paid	—	(6)	(6)
Increase in subordinated notes payable	—	48	5
Repurchase of receivables previously sold	113	—	—
Operating cash flows used by (provided to) Oncor under the program	\$ 113	\$ (27)	\$ 3

(a) Represents final activities related to Oncor's exit from the sale of receivables program.

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10. BORROWINGS UNDER CREDIT FACILITIES

At December 31, 2008, Oncor had a \$2.0 billion credit facility, expiring October 10, 2013, to be used for working capital and general corporate purposes, including issuances of commercial paper and letters of credit. Oncor may request increases in the commitments under the facility in any amount up to \$500 million, subject to the satisfaction of certain conditions. This facility is a revolving credit facility, which means that amounts borrowed under the facility, once repaid, can be borrowed again by Oncor from time to time. Borrowings are classified as short-term on the balance sheet. In May 2008, Oncor secured this credit facility with a first priority lien on certain of its transmission and distribution assets. Oncor 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 aggregate 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.

At December 31, 2008, Oncor had outstanding borrowings under its credit facility totaling \$337 million (\$350 million requested draws less \$13 million of draws not funded; see immediately below) with an interest rate of 1.98% at the end of the period. At December 31, 2007, Oncor had outstanding borrowings under its credit facility totaling \$1.280 billion with an interest rate of 5.70% at the end of the period. The decrease in borrowings was driven by use of the majority of the proceeds from the issuance in September 2008 of \$1.5 billion of senior secured notes (as described in Note 11) to repay short-term borrowings, partially offset by funding of ongoing capital investments including the acquisition of broadband over powerline based "Smart Grid" network assets. Availability under the credit facility as of December 31, 2008 was \$1.508 billion, which excludes \$142 million of undrawn commitments from a subsidiary of Lehman Brothers Holding Inc. (Lehman) that has filed for bankruptcy under Chapter 11 of the US Bankruptcy Code and \$13 million of requested draws that have not been funded by the Lehman subsidiary.

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.

Borrowings under this credit facility bear interest at per annum rates equal to, at Oncor's option, (i) adjusted LIBOR plus a spread of 0.275% to 0.800% (depending on the rating assigned to Oncor's senior secured debt) or (ii) a base rate (the higher of (1) the prime rate of JPMorgan Chase Bank, N.A. and (2) the federal funds effective rate plus 0.50%). Under option (i) and based on Oncor's current ratings, its LIBOR-based borrowings, which apply to all outstanding borrowings at December 31, 2008, bear interest at LIBOR plus 0.425%.

A facility fee is payable at a rate per annum equal to 0.100% to 0.200% (depending on the rating assigned to Oncor's senior secured debt) of the commitments under the facility. Based on Oncor's current ratings, its facility fee is 0.150%. A utilization fee is payable on the average daily amount of borrowings in excess of 50% of the commitments under the facility at a rate per annum equal to 0.125% per annum.

The credit facility contains customary covenants for facilities of this type, restricting, subject to certain exceptions, Oncor and its subsidiary from, among other things:

- incurring additional liens;
- entering into mergers and consolidations;
- selling certain assets, and
- making acquisitions and investments in subsidiaries.

In addition, the credit facility requires that Oncor maintain a consolidated senior debt-to-capitalization ratio of no greater than 0.65 to 1.00 and observe certain customary reporting requirements and other affirmative covenants.

The credit facility contains certain customary events of default for facilities of this type, the occurrence of which would allow the lenders to accelerate all outstanding loans and terminate their commitments under the facility.

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11. LONG-TERM DEBT

At December 31, 2008 and 2007, the long-term debt of Oncor consisted of the following:

	Successor December 31,	
	2008	2007
Oncor (a)		
6.375% Fixed Senior Notes due May 1, 2012	\$ 700	\$ 700
5.950% Fixed Senior Notes due September 1, 2013	650	—
6.375% Fixed Senior Notes due January 15, 2015	500	500
6.800% Fixed Senior Notes due September 1, 2018	550	—
7.000% Fixed Debentures due September 1, 2022	800	800
7.000% Fixed Senior Notes due May 1, 2032	500	500
7.250% Fixed Senior Notes due January 15, 2033	350	350
7.500% Fixed Senior Notes due September 1, 2038	300	—
Unamortized discount	(16)	(15)
Total Oncor	4,334	2,835
Oncor Electric Delivery Transition Bond Company LLC (b)		
4.030% Fixed Series 2003 Bonds due in semiannual installments through February 15, 2010	54	93
4.950% Fixed Series 2003 Bonds due in semiannual installments through February 15, 2013	130	130
5.420% Fixed Series 2003 Bonds due in semiannual installments through August 15, 2015	145	145
3.520% Fixed Series 2004 Bonds due in semiannual installments through November 15, 2009	39	99
4.810% Fixed Series 2004 Bonds due in semiannual installments through November 15, 2012	221	221
5.290% Fixed Series 2004 Bonds due in semiannual installments through May 15, 2016	290	290
Total Oncor Electric Delivery Transition Bond Company LLC	879	978
Unamortized fair value discount related to transition bonds (c)	(9)	(12)
Total consolidated	5,204	3,801
Less amount due currently	(103)	(99)
Total long-term debt	\$ 5,101	\$ 3,702

- (a) Secured with first priority lien as discussed in Note 10.
- (b) The transition bonds are nonrecourse to Oncor and were issued to securitize a regulatory asset.
- (c) The transition bonds, which secured regulatory assets not earning a return, were fair valued as of October 10, 2007 as a result of purchase accounting.

Debt Issuances in 2008

In September 2008, Oncor issued and sold senior secured notes with an aggregate principal amount of \$1.5 billion consisting of \$650 million aggregate principal amount of 5.95% senior secured notes maturing in September 2013, \$550 million aggregate principal amount of 6.80% senior secured notes maturing in September 2018 and \$300 million aggregate principal amount of 7.50% senior secured notes maturing in September 2038. Oncor used the net proceeds of approximately \$1.487 billion from the sale of the notes to repay most of its borrowings under its credit facility as well as for general corporate purposes. The notes are initially secured by the first priority lien described in Note 10. The notes are secured equally and ratably with all of Oncor's other secured indebtedness. If the lien is terminated, the notes will cease to be secured obligations of Oncor and will become senior unsecured general obligations of Oncor.

Interest on these notes is payable in cash semiannually in arrears on March 1 and September 1 of each year, and the first interest payment is due on March 1, 2009. Oncor may redeem the notes, in whole or in part, at any time, at a price equal to 100% of their principal amount, plus accrued and unpaid interest and a "make-whole" premium. The notes also contain customary events of default, including failure to pay principal or interest on the notes when due.

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These notes were issued in a private placement and have not been registered under the Securities Act. Oncor has agreed to use its commercially reasonable efforts to register with the SEC notes having substantially identical terms as the notes as part of an offer to exchange freely tradable exchange notes for these notes. Oncor has agreed to use commercially reasonable efforts to cause the exchange offer to be completed or, if required, to have one or more shelf registration statements declared effective, within 270 days after the issue date of the notes. If this obligation is not satisfied (an Oncor Registration Default), the annual interest rate on the notes will increase by 0.50% per annum over the applicable original interest rate until the earlier of the expiration of the Oncor Registration Default period or the second anniversary of the issue date of the notes. Oncor also agreed to file a registration statement containing a "market making prospectus" and to keep it effective, subject to certain exceptions, for a period of ten years after the issue date of the notes.

Debt Repayments in 2008

Repayments of long-term debt in 2008 totaled \$99 million and represent transition bond principal payments at scheduled maturity dates.

Debt-Related Activity in 2007

In March 2007, Oncor issued floating rate senior notes with an aggregate principal amount of \$800 million with a floating rate based on LIBOR plus 37.5 basis points. The notes were to mature in September 2008, but in accordance with their terms, were redeemed upon closing of the Merger.

Other repayments of debt in 2007 totaling \$296 million represented payments at scheduled maturity dates and included \$200 million of maturing fixed-rate debentures and \$96 million of scheduled transition bond principal payments.

Interest Rate Hedges

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 net losses of \$0.4 million will be reclassified into net income during the next twelve months as the related hedged transactions affect net income.

Maturities

Long-term debt and transition bonds maturities are as follows:

<u>Year</u>	
2009	\$ 103
2010	108
2011	113
2012	819
2013	775
Thereafter	3,311
Unamortized fair value discount	(9)
Unamortized discount	(16)
Total	\$5,204

Table of Contents**12. COMMITMENTS AND CONTINGENCIES****Leases**

As of December 31, 2008, future minimum lease payments under operating leases (with initial or remaining noncancelable lease terms in excess of one year) were as follows:

Year	
2009	\$ 8
2010	7
2011	7
2012	6
2013	3
Thereafter	11
Total future minimum lease payments	\$42

Rent charged to operation and maintenance expense totaled \$10 million for the year ended December 31, 2008, \$3 million for the period October 11, 2007 through December 31, 2007, \$7 million for the period January 1, 2007 through October 10, 2007 and \$13 million for the year ended December 31, 2006.

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 upon its financial position, results of operations or cash flows.

Capital Expenditures

Oncor and Texas Holdings agreed to the terms of a stipulation with major interested parties to resolve all outstanding issues in the PUCT review related to the Merger. As one of the provisions of this stipulation, Oncor committed to minimum capital spending of \$3.6 billion over the five-year period ending December 31, 2012, subject to certain defined conditions.

Efficiency Spending

Oncor expects to invest \$300 million, which includes \$100 million in excess of regulatory requirements, over the five years ending in 2012 on programs designed to improve customer electricity demand efficiencies.

Labor Contracts

Certain Oncor employees are represented by a labor union and covered by a collective bargaining agreement that expired in January 2008. A new three-year labor contract was ratified in February 2008. In April 2008, a group of approximately 50 employees elected to be represented by a labor union. The new labor contract and the representation of this group of additional employees will not have a material effect on Oncor's financial position, results of operations or cash flows.

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Environmental Contingencies

Oncor must comply with environmental laws and regulations applicable to the handling and disposal of hazardous waste. Oncor is in compliance with all current laws and regulations; however, the impact, if any, of changes to existing regulations or the implementation of new regulations is not determinable. The costs to comply with environmental regulations can be significantly affected by the following external events or conditions:

- changes to existing state or federal regulation by governmental authorities having jurisdiction over control of toxic substances and hazardous and solid wastes, and other environmental matters; and
- the identification of additional sites requiring clean-up or the filing of other complaints in which Oncor may be asserted to be a potential responsible party.

Guarantees

Oncor has entered into contracts that contain guarantees to outside parties that could require performance or payment under certain conditions.

Oncor is the lessee under various operating leases that obligate it to guarantee the residual values of the leased assets. At December 31, 2008, both the aggregate maximum amount of residual values guaranteed and the estimated residual recoveries totaled approximately \$13 million. These leased assets consist primarily of vehicles used in distribution activities. The average life of the residual value guarantees under the lease portfolio is approximately one year.

13. MEMBERSHIP INTERESTS

Successor

In connection with the Merger, Oncor was converted from a Texas corporation to a Delaware limited liability company under the laws of the States of Texas and Delaware and accordingly, its 49 million shares of common stock were converted into a single membership interest. Upon the execution and delivery of the Limited Liability Company Agreement, the single membership interest was converted into 508,264,860 units of membership interests in Oncor.

On November 5, 2008, Oncor issued and sold additional equity interests, resulting in an unaffiliated investor group acquiring a 19.75% minority stake and certain members of Oncor's management team acquiring a 0.21% minority stake indirectly through their investment in Investment LLC. The net proceeds of \$1.253 billion were distributed to Oncor Holdings and ultimately to EFH Corp. See Note 1.

During 2008, Oncor's board of directors declared and Oncor paid the following cash distributions to Oncor Holdings:

<u>Declaration Date</u>	<u>Payment Date</u>	<u>Amount Paid</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 goodwill impairment charge 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, 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 the equity interests to Texas Transmission and certain members of Oncor's management were excluded from these distribution limitations.

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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.

As a result of the Merger, all outstanding unvested stock-based incentive compensation awards previously granted by EFH Corp. to Oncor employees vested and such employees became entitled to receive the \$69.25 per share Merger consideration. The settlement of these awards totaled \$24 million and was accounted for as an equity contribution from EFH Corp., as was the settlement of \$4 million of cash incentive compensation awards. See Note 17 for further discussion of stock-based compensation, including a SARs Plan implemented in November 2008.

In connection with the Merger, Texas Holdings paid a \$12 million fee related to Oncor's \$2 billion revolving credit facility. Such payment was accounted for as an investment by Texas Holdings.

Predecessor

No shares of Oncor's common stock were held by or for its own account, nor were any shares of such capital stock reserved for its officers and employees or for options, warrants, conversions and other rights in connection therewith.

Under SFAS 123R, expense related to EFH Corp.'s stock-based incentive compensation awards granted to Oncor's employees was accounted for as a noncash capital contribution from EFH Corp. Accordingly, Oncor recorded a credit to its common stock account of \$3 million in the period January 1, 2007 through October 10, 2007 and \$5 million for the year ended December 31, 2006.

Oncor recorded a credit to common stock of \$15 million in the period January 1, 2007 through October 10, 2007 and \$14 million in the year 2006 arising from the excess tax benefit generated by the distribution date value of the stock-based incentive awards exceeding the reported compensation expense. The \$15 million credit (benefit) in 2007 was realized in the Successor period in conjunction with a tax payment to EFH Corp.

Effective January 1, 2005, Oncor and TCEH entered into an agreement whereby Oncor assumed responsibility for pension and OPEB costs for all applicable former employees of the regulated predecessor integrated electric utility that, in addition to its own employees consists largely of 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. (See Note 16 for additional information related to this agreement.) In connection with this agreement, Oncor recorded a \$15 million credit to its common stock account in 2006 for the noncash contribution of pension-related assets and a \$146 million charge to common stock in 2005 for the noncash assumption of the pension obligation.

In 2006, Oncor distributed its mineral interests in natural gas and oil to EFH Corp. in the form of a dividend. The dividend was recorded at the book value of the interests, which was zero. These mineral interests were acquired as part of land purchases over the years to support the expansion of the transmission and distribution system and not for the mineral development, and no value was attributed to the mineral interests at the time of acquisition.

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14. INVESTMENTS

The investments balance consists of the following:

	Successor December 31,	
	2008	2007
Assets related to employee benefit plans, including employee savings programs, net of distributions	\$ 65	\$ 77
Investment in unconsolidated affiliates	5	10
Land	2	2
Total investments	<u>\$ 72</u>	<u>\$ 89</u>

Assets Related to Employee Benefit Plans

The majority of these assets represent cash surrender values of life insurance policies that are purchased to fund liabilities under deferred compensation plans. EFH Corp. pays the premiums and is the beneficiary of these life insurance policies. As of December 31, 2008 and 2007, the face amount of these policies totaled \$151 million and \$168 million, and the net cash surrender values totaled \$53 million and \$68 million, respectively. Changes in cash surrender value are netted against premiums paid. Other investment assets held to satisfy deferred compensation liabilities are recorded at market value.

Restricted Cash

	Successor			
	At December 31, 2008		At December 31, 2007	
	Current Assets	Noncurrent Assets	Current Assets	Noncurrent Assets
Customer collections related to securitization (transition) bonds used only to service debt and pay expenses	\$ 51	\$ —	\$ 56	\$ —
Reserve for fees associated with transition bonds	—	10	—	10
Reserve for shortfalls of transition bond charges	—	6	—	7
Total restricted cash	<u>\$ 51</u>	<u>\$ 16</u>	<u>\$ 56</u>	<u>\$ 17</u>

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15. NOTICE OF TERMINATION OF OUTSOURCING ARRANGEMENTS

In connection with the closing of the Merger, EFH Corp., Oncor and TCEH commenced a review, under the change of control provision, of certain outsourcing arrangements with Capgemini Energy LP (Capgemini), Capgemini America, Inc. and Capgemini North America, Inc. (collectively, CgE). During the fourth quarter of 2008, Oncor executed a Separation Agreement with 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 provides 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.

The Separation Agreement acts as a notice of termination under the Master Framework Agreement and the related services agreements. As a result of the "change of control" of EFH Corp. that occurred as a result of the Merger, Oncor had the contractual right to terminate, without penalty, its Master Framework Agreement. Oncor has elected to exercise such right. 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 actually terminate when these termination assistance services are completed. Oncor previously provided a termination notice to Capgemini in respect of human resources services.

The Separation Agreements provide for the termination of the joint venture arrangement between EFH Corp. (and its applicable subsidiaries) and CgE. As a result, during the fourth quarter of 2008:

- EFH Corp. received approximately \$70 million in cash in exchange for the termination of a purchase option agreement pursuant to which subsidiaries of EFH Corp. had the right to "put" to Capgemini (and Capgemini had the right to "call" from a subsidiary of EFH Corp.) EFH Corp.'s 2.9% limited partnership interest in Capgemini and licensed assets, principally software, upon the expiration of the Master Framework Agreements in 2014 or, in some circumstances, earlier. Oncor received \$20 million of such proceeds, reflecting its share of the put option value.
- The parties entered into a mutual release of all claims under the Master Framework Agreement and related services agreements, subject to certain defined exceptions, and Oncor received \$4 million in cash in settlement of such claims.

The carrying value of Oncor's share of the put option value was \$48 million prior to the application of purchase accounting (recorded as a noncurrent asset). 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 the final purchase price allocation (see Note 2).

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16. PENSION AND OTHER POSTRETIREMENT EMPLOYEE BENEFITS

Pension Plan

Oncor is a participating employer in the EFH Retirement Plan (Retirement Plan), a defined benefit pension plan sponsored by EFH Corp. The Retirement Plan is a qualified pension plan under Section 401(a) of the Internal Revenue Code of 1986, as amended (Code) and is subject to the provisions of the Employee Retirement Income Security Act of 1974, as amended (ERISA). Employees are eligible to participate in the Retirement Plan upon their completion of one year of service and the attainment of age 21. All benefits are funded by the participating employers. The Retirement Plan provides benefits to participants under one of two formulas: (i) a Cash Balance Formula under which participants earn monthly contribution credits based on their compensation and a combination of their age and years of service, plus monthly interest credits or (ii) a Traditional Retirement Plan Formula based on years of service and the average earnings of the three years of highest earnings. The interest component of the Cash Balance Formula is variable and is determined using the yield on 30-year Treasury bonds.

All eligible employees hired after January 1, 2001 participate under the Cash Balance Formula. Certain employees who, prior to January 1, 2002, participated under the Traditional Retirement Plan Formula, continue their participation under that formula. Under the Cash Balance Formula, future increases in earnings will not apply to prior service costs. It is EFH Corp.'s policy to fund the plans on a current basis to the extent deductible under existing federal tax regulations.

Oncor also participates in EFH Corp.'s supplemental retirement plans for certain employees, whose retirement benefits cannot be fully earned under the qualified Retirement Plan, the information for which is included below.

Other Postretirement Employee Benefits (OPEB) Plan

Oncor participates with EFH Corp. and certain other affiliated 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. For employees retiring on or after January 1, 2002, the retiree contributions required for such coverage vary based on a formula depending on the retiree's age and years of service.

Pension and OPEB Costs Recognized as Expense

The following details net pension and OPEB costs recognized as expense:

	Successor		Predecessor	
	Year Ended December 31, 2008	Period from October 11, 2007 to December 31, 2007	Period from January 1, 2007 to 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

Consistent with SFAS 87, EFH Corp. uses the calculated value method to determine the market-related value of the assets held in its trust. EFH Corp. includes the realized and unrealized gains or losses in the market-related value of assets over a rolling four-year period. Each year, 25% of such gains and losses for the current year and for each of the preceding three years is included in the market-related value. Each year, the market-related value of assets is increased for contributions to the plan, and investment income and is decreased for benefit payments and expenses for that year.

The pension and OPEB amounts provided represent allocations to Oncor of amounts related to EFH Corp.'s plans.

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Regulatory Recovery of Pension and OPEB Costs

In June 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 businesses 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 the second quarter of 2005 Oncor began deferring (principally as a regulatory asset or property) additional pension and OPEB costs as permitted by the amendment. Amounts deferred are ultimately subject to regulatory approval. Amounts recorded as a regulatory asset totaled \$15 million and \$20 million in 2008 and 2007, respectively.

Assumed Discount Rate

The discount rates reflected in net pension and OPEB costs are 6.55% for the year ended December 31, 2008, 6.45% for the period October 11, 2007 through December 31, 2007, 5.90% for the period January 1, 2007 through October 10, 2007, and 5.75% for the year ended December 31, 2006. The expected rate of return on plan assets reflected in the 2008 cost amounts is 8.25% for the pension plan and 7.90% for OPEBs.

Pension and OPEB Plan Cash Contributions

Contributions to the benefit plans were as follows:

	December 31,		
	2008	2007	2006
Pension plan contributions	\$ 46	\$ 3	\$ 2
OPEB plan contributions	31	33	26
Total contributions	\$ 77	\$ 36	\$ 28

Estimated funding in 2009 of the pension plan and OPEB plan totals \$61 million and \$18 million, respectively.

Thrift Plan

Employees of Oncor may participate in a qualified savings plan, the EFH Thrift Plan (Thrift Plan). The Thrift Plan is a participant-directed defined contribution plan intended to qualify under Section 401(a) of the Code, and is subject to the provisions of ERISA. The Thrift Plan included an employee stock ownership component until October 10, 2007. Under the terms of the Thrift Plan, employees who do not earn more than the IRS threshold compensation limit used to determine highly compensated employees may contribute, through pre-tax salary deferrals and/or after-tax applicable payroll deductions, the lesser of 75% of their regular salary or wages or the maximum amount permitted under law. Employees who earn more than such threshold may contribute from 1% to 16% of their regular salary or wages. Employer matching contributions are also made in an amount equal to 100% of the first 6% of employee contributions for employees who are covered under the Cash Balance Formula of the Retirement Plan, and 75% of the first 6% of employee contributions for employees who are covered under the Traditional Retirement Plan Formula of the Retirement Plan. Prior to January 1, 2006, employer matching contributions were invested in EFH Corp. common stock. Effective January 1, 2006 through October 10, 2007, employees could reallocate or transfer all or part of their accumulated or future employer matching contributions to any of the Thrift Plan's other investment options. As of October 10, 2007, employer matching contributions are made in cash and may be allocated by participants to any of the Thrift Plan's investment options.

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17. STOCK-BASED COMPENSATION

Successor

In 2008, Oncor established the Oncor Electric Delivery Company LLC Stock Appreciation Rights Plan (the SARs Plan) under which certain employees of Oncor may be granted stock appreciation rights (SARs) payable in cash, or in some circumstances, Oncor units. Two types of SARs may be granted under the SARs Plan. Time-based SARs (Time SARs) vest solely based upon continued employment ratably on an annual basis on each of the first five anniversaries of the grant date. Performance-based SARs (Performance SARs) vest based upon both continued employment and the achievement of a predetermined level of Oncor EBITDA over time, generally ratably over five years based upon annual Oncor EBITDA levels, with provisions for vesting if the annual levels are not achieved but cumulative two- or three-year total Oncor EBITDA levels are achieved. Time and Performance SARs may also vest in part or in full upon the occurrence of certain specified liquidity events and are exercisable only upon the occurrence of certain specified liquidity events. Since the exercisability of the Time and Performance SARs is conditioned upon the occurrence of a liquidity event, compensation expense will not be recorded until it is probable that a liquidity event will occur. Generally, awards under the SARs Plan terminate on the tenth anniversary of the grant, unless the participant's employment is terminated earlier under certain circumstances.

In February 2009, Oncor also established the Oncor Electric Delivery Company LLC Director Stock Appreciation Rights Plan (the Director SARs Plan) under which certain non-employee members of Oncor's board of directors and other persons having a relationship with Oncor may be granted SARs payable in cash, or in some circumstances, Oncor units. SARs granted under the Director Plan vest in eight equal quarterly installments over a two-year period and are exercisable only upon the occurrence of certain specified liquidity events. Since the exercisability of the Director SARs is conditioned upon the occurrence of a liquidity event, expense will not be recorded until it is probable a liquidity event will occur.

SARs under the SARs Plan and the Director SARs Plan are generally payable in cash based on the fair market value of the SAR on the date of exercise. During 2008, Oncor granted 13.9 million SARs under the SARs Plan, of which 1.4 million Time SARs were vested at December 31, 2008. Pursuant to an amendment to the SARs Plan terms in February 2009, a total of 1.4 million Performance SARs related to the period ended December 31, 2008 were declared vested in recognition that the established 2008 EBITDA target was substantially achieved. There were no SARs eligible for exercise at December 31, 2008.

Predecessor

Prior to the Merger, Oncor bore the costs of the EFH Corp. shareholder-approved long-term incentive plans for applicable management personnel engaged in Oncor's business activities. EFH Corp. provided discretionary awards of performance units to qualified management employees that were payable in its common stock. The awards generally vested over a three-year period and the number of shares ultimately earned was based on the performance of EFH Corp.'s stock over the vesting period as compared to peer companies and established thresholds. EFH Corp. established restrictions that limited certain employees' opportunities to liquidate vested awards.

EFH Corp. determined the fair value of its stock-based compensation awards utilizing a valuation model that took into account three principal factors: expected volatility of the stock price of EFH Corp. and peer group companies, dividend rate of EFH Corp. and peer group companies and the restrictions limiting liquidation of vested stock awards. Based on the fair values determined under this model, Oncor's reported expense related to the awards totaled \$3 million (\$2 million after-tax) for the period January 1, 2007 through October 10, 2007 and \$4 million (\$3 million after-tax) in 2006. The number of awards granted, net of forfeitures, totaled zero and 8 thousand in 2007 and 2006, respectively.

With respect to awards to Oncor's employees, the fair value of awards that vested in the period January 1, 2007 through October 10, 2007 and the year ended December 31, 2006 totaled \$84 million and \$57 million, respectively, based on the vesting date share prices.

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18. RELATED-PARTY TRANSACTIONS

The following represent significant related-party transactions of Oncor:

- Oncor records revenue from TCEH, principally for electricity delivery fees, which totaled \$1 billion for the year ended December 31, 2008, \$209 million for the period October 11, 2007 through December 31, 2007, \$823 million for the period January 1, 2007 through October 10, 2007 and \$1.1 billion for the year ended December 31, 2006.
- Oncor records interest income from TCEH with respect to Oncor's generation-related regulatory assets, which have been securitized through the issuance of transition bonds by Oncor's bankruptcy-remote financing subsidiary. The interest income serves to offset Oncor's interest expense on the transition bonds. This interest income totaled \$46 million for the year ended December 31, 2008, \$11 million for the period October 11, 2007 through December 31, 2007, \$38 million for the period January 1, 2007 through October 10, 2007 and \$52 million for the year ended December 31, 2006.
- Incremental amounts payable by Oncor related to income taxes as a result of delivery fee surcharges to its customers related to transition bonds are reimbursed by TCEH. Oncor's financial statements reflect a note receivable from TCEH of \$289 million (\$35 million reported as current in trade accounts and other receivables from affiliates) at December 31, 2008 and \$323 million (\$34 million reported as current in trade accounts and other receivables from affiliates) at December 31, 2007 related to these income taxes.
- Short-term advances from parent totaled \$24 million at December 31, 2006. The average daily balances of short-term advances from parent totaled \$42 million and \$44 million for the period January 1, 2007 through October 10, 2007 and the year ended December 31, 2006, and the weighted average interest rate for the respective periods was 5.8% and 5.4%. Interest expense incurred on the advances totaled approximately \$2 million for the period January 1, 2007 through October 10, 2007 and \$2 million for the year ended December 31, 2006. As a result of actions taken at the time of the Merger to further ring-fence Oncor, advances from EFH Corp. to Oncor ceased and outstanding amounts were repaid.
- An EFH Corp. subsidiary charges Oncor for financial and certain other administrative services at cost. These costs, which are reported in operation and maintenance expenses, totaled \$24 million for the year ended December 31, 2008, \$6 million for the period October 11, 2007 through December 31, 2007, \$20 million for the period January 1, 2007 through October 10, 2007 and \$36 million for the year ended December 31, 2006.
- Under Texas regulatory provisions, the trust fund for decommissioning the Comanche Peak nuclear generation facility (reported on TCEH's balance sheet) is funded by a delivery fee surcharge collected from REPs by Oncor and remitted to TCEH. These trust fund assets are established with the intent to be sufficient to fund the estimated decommissioning liability (also reported on TCEH's balance sheet). Income and expenses associated with the trust fund and the decommissioning liability recorded by TCEH are offset by a net change in the Oncor and TCEH intercompany receivable/payable, which in turn results in a change in Oncor's reported net regulatory asset/liability. At December 31, 2008, the excess of the decommissioning liability over the trust fund balance resulted in a regulatory asset of \$127 million. At December 31, 2007, the excess of the trust fund balance over the estimated decommissioning liability resulted in a regulatory liability of \$13 million.
- Oncor has a 19.5% limited partnership interest, with a carrying value of \$5 million and \$10 million at December 31, 2008 and 2007, respectively, in an EFH Corp. subsidiary holding principally software-related assets. Equity losses related to this interest are reported in other deductions and totaled \$4 million for the year ended December 31, 2008, \$1 million for the period October 11, 2007 through December 31, 2007, \$2 million for the period January 1, 2007 through October 10, 2007 and \$4 million for the year ended December 31, 2006. These losses primarily represent amortization of software assets held by the subsidiary.

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- Under the terms of a tax sharing agreement among Oncor, Oncor Holdings, Texas Transmission, Investment LLC and EFH Corp., Oncor is generally obligated to make payments to Texas Transmission, Investment LLC and EFH Corp., pro rata in accordance with their respective membership interests in Oncor, in an aggregate amount that is substantially equal to the amount of taxes that Oncor would have been required to pay if Oncor was a stand-alone corporation. See Note 1 to Financial Statements under "Income Taxes." Under the terms of this agreement, Oncor had amounts receivable from EFH Corp. related to income taxes due currently in respect of income of Oncor of \$21 million and \$29 million at December 31, 2008 and 2007, respectively.
- Oncor held cash collateral of \$15 million on both December 31, 2008 and 2007 from TCEH related to interconnection agreements for three generation units being developed by TCEH. The collateral is reported in the balance sheet in other current liabilities.
- Certain transmission and distribution utilities in Texas have tariffs in place to assure adequate credit worthiness of any REP to support the REP's obligation to collect securitization bond-related (transition) charges on behalf of the utility. Under these tariffs, as a result of TCEH's credit rating being below investment grade, TCEH is required to post collateral support in an amount equal to estimated transition charges over specified time periods. Accordingly, as of December 31, 2008 and 2007, TCEH had posted letters of credit in the amount of \$13 million and \$14 million, respectively, for the benefit of Oncor.
- At the closing of the Merger, Oncor entered into a \$2 billion revolving credit facility with a syndicate of financial institutions and other lenders. The syndicate includes affiliates of GS Capital Partners. Affiliates of GS Capital Partners (a member of the Sponsor Group) have from time-to-time engaged in commercial banking transactions with Oncor in the normal course of business.
- Affiliates of the Sponsor Group have, and from time-to-time may, acquire debt or debt securities issued by Oncor in open market transactions or loan syndications. In addition, affiliates of the Sponsor Group acted as initial purchasers in Oncor's \$1.5 billion senior secured notes offering in September 2008.

See Notes 7, 9, 13 and 16 for information regarding the tax sharing agreement, the accounts receivable securitization program, distributions to Oncor Holdings and the allocation of EFH Corp.'s pension and OPEB costs to Oncor, respectively.

19. SUPPLEMENTARY FINANCIAL INFORMATION

Other Income and Deductions

	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
Other income:				
Net gain on sale of other properties and investment	\$ 1	\$ 1	\$ 3	\$ 1
Accretion of adjustment (discount) to regulatory assets due to purchase accounting (Note 2)	44	10	—	—
Other	—	—	—	1
Total other income	\$ 45	\$ 11	\$ 3	\$ 2
Other deductions:				
Charges related to 2006 cities rate settlements (Note 5)	\$ 13	\$ 6	\$ 20	\$ 13
Expenses related to canceled InfrastruX Energy Services joint venture (a)	—	—	3	7
Equity losses in an unconsolidated affiliate (Note 18)	4	1	2	4
Other	8	1	5	3
Total other deductions	\$ 25	\$ 8	\$ 30	\$ 27

- (a) Consists of previously deferred costs arising from operational activities to transition to the joint venture arrangement, which was canceled in connection with the Merger.

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Major Customers

Amounts billed to TCEH represented 39% and amounts billed to one large non-affiliated REP represented 16% of Oncor's total operating revenues for the year ended December 31, 2008. No other customer represented 10% or more of total operating revenues.

Interest Expense and Related Charges

	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
Interest	\$ 314	\$ 70	\$ 242	\$ 287
Amortization of fair value debt discounts resulting from purchase accounting	3	—	—	—
Amortization of debt issuance costs and discounts	5	1	7	5
Allowance for funds used during construction — capitalized interest portion	(6)	(1)	(7)	(6)
Total interest expense and related charges	\$ 316	\$ 70	\$ 242	\$ 286

Property, Plant and Equipment

	Successor December 31,	
	2008	2007
Assets in service:		
Distribution	\$ 8,429	\$ 8,036
Transmission	3,626	3,388
Other assets	477	388
Total	12,532	11,812
Less accumulated depreciation	4,158	3,932
Net of accumulated depreciation	8,374	7,880
Construction work in progress	213	170
Held for future use	19	19
Property, plant and equipment — net	\$ 8,606	\$ 8,069

Oncor's depreciation expense as a percent of average depreciable property approximated 2.8% for 2008, 2007 and 2006.

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Intangible Assets

Intangible assets other than goodwill reported in the balance sheet are comprised of the following:

	Successor					
	As of December 31, 2008			As of December 31, 2007		
	Gross Carrying Amount	Accumulated Amortization	Net	Gross Carrying Amount	Accumulated Amortization	Net
Intangible assets subject to amortization included in property, plant and equipment:						
Land easements	\$ 184	\$ 69	\$ 115	\$ 179	\$ 67	\$ 112
Capitalized software	145	80	65	122	63	59
Total	\$ 329	\$ 149	\$ 180	\$ 301	\$ 130	\$ 171

Aggregate Oncor amortization expense for intangible assets totaled \$19 million for the year ended December 31, 2008, \$3 million for the period October 11, 2007 through December 31, 2007, \$11 million for the period January 1, 2007 through October 10, 2007, and \$20 million for the year ended December 31, 2006. At December 31, 2008, the weighted average remaining useful lives of capitalized land easements and software were 69 years and 10 years, respectively. The estimated aggregate amortization expense for each of the five succeeding fiscal years from December 31, 2008 is as follows:

Year	Amortization Expense
2009	\$ 21
2010	15
2011	12
2012	10
2013	5

Goodwill of \$4.9 billion was reported on the balance sheet as of December 31, 2007 and represented the portion assigned to Oncor of the goodwill arising from the Merger under purchase accounting. The balance reported at December 31, 2008 is \$4.1 billion. See Note 2 for discussion of financial statement effects of the Merger and Note 3 for discussion of the goodwill impairment. None of this goodwill is being deducted for tax purposes.

Supplemental Cash Flow Information

	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 payments:				
Interest paid	\$ 284	\$ 72	\$ 240	\$ 287
Capitalized interest	(6)	(1)	(7)	(6)
Interest (net of amounts capitalized)	278	71	233	281
Provision for/in lieu of income taxes	44	26	106	290
Noncash investing and financing activities:				
Noncash construction expenditures (a)	49	70	25	33
Noncash contribution related to incentive compensation plans	—	28	—	5
Noncash capital contribution from Texas Holdings	—	12	—	—
Noncash contribution for pension-related assets	—	—	—	15

(a) Represents end-of-period accruals.

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None.

Item 9A(T). CONTROLS AND PROCEDURES

An evaluation was performed under the supervision and with the participation of Oncor's management, including the principal executive officer and principal financial officer, of the effectiveness of the design and operation of the disclosure controls and procedures in effect as of December 31, 2008. Based on the evaluation performed, Oncor's management, including the principal executive officer and principal financial officer, concluded that the disclosure controls and procedures were effective. There have been no changes in Oncor's internal controls over financial reporting during the most recently completed fiscal quarter that have materially affected, or are reasonably likely to materially affect, Oncor's internal control over financial reporting.

**ONCOR ELECTRIC DELIVERY COMPANY LLC
MANAGEMENT'S ANNUAL REPORT ON
INTERNAL CONTROL OVER FINANCIAL REPORTING**

The management of Oncor Electric Delivery Company LLC is responsible for establishing and maintaining adequate internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Securities Exchange Act of 1934) for the company. Oncor Electric Delivery Company LLC's internal control over financial reporting is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in condition or the deterioration of compliance with procedures or policies.

The management of Oncor Electric Delivery Company LLC performed an evaluation as of December 31, 2008 of the effectiveness of the company's internal control over financial reporting based on the Committee of Sponsoring Organizations of the Treadway Commission's (COSO's) *Internal Control—Integrated Framework*. Based on the review performed, management believes that as of December 31, 2008 Oncor Electric Delivery Company LLC's internal control over financial reporting was effective.

This annual report does not include an attestation report of the company's registered public accounting firm regarding internal control over financial reporting. Management's report was not subject to attestation by the company's registered public accounting firm pursuant to temporary rules of the Securities and Exchange Commission that permit the company to provide only management's report in this annual report.

/s/ ROBERT S. SHAPARD

Robert S. Shapard, Chairman of the Board and Chief Executive

/s/ DAVID M. DAVIS

David M. Davis, Vice President and Chief Financial Officer

March 2, 2009

Item 9B. OTHER INFORMATION

None.

Item 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

Directors

The names of Oncor's directors and information about them, as furnished by the directors themselves, are set forth below:

Name	Age	Served As Director Since	Business Experience
Nora Mead Brownell (1)	61	2007	Nora Mead Brownell has served as a Director of Oncor since October 2007. Following her service as a Commissioner of the FERC from May 2001 to June 2006, Ms. Brownell founded BC Strategies, an energy consulting firm. She served on the Pennsylvania Public Utility Commission from 1997 until she became a FERC Commissioner. Ms. Brownell serves on the boards of directors of Comverge Inc., an energy technology company, Spectra Energy Partners, a natural gas transportation and storage company, Leaf Clean Energy Company, which invests in clean energy projects in North America and Oncor Holdings.
Richard C. Byers (1)(2)	49	2008	Richard C. Byers has served as a Director of Oncor since November 2008. Mr. Byers currently serves as an Executive Vice President of Borealis Infrastructure Management Inc. (Borealis), an investment arm of Canada's OMERS pension plan, a position he has held since January 2008. Prior to joining Borealis, Mr. Byers served as Managing Director of BMO Nesbitt Burns, a brokerage investment firm, since 1991.
Thomas M. Dunning (4)	66	2007	Thomas M. Dunning has served as a Director of Oncor since October 2007. Since 2007 he has served as non-Executive Chairman of Lockton Dunning Benefits, a company specializing in the design and servicing of health, welfare and retirement benefits. Mr. Dunning also served as Chairman and Chief Executive Officer of Lockton Dunning Benefit Company, its predecessor company, from 1998 to 2007 following the 1998 acquisition of Dunning Benefits Corporation, which Mr. Dunning founded, by the Lockton Group of Companies. Mr. Dunning currently serves on the boards of directors of American Beacon Funds, Dallas Citizens Council, Southwestern Medical Foundation, Baylor Health Care System Foundation, Oncor Holdings, and a number of non-profit organizations.
Robert A. Estrada (1)	62	2007	Robert A. Estrada has served as a Director of Oncor since October 2007. Mr. Estrada is Chairman of the Board and Chief Compliance Officer of Estrada Hinojosa & Company, Inc., an investment banking firm specializing in public finance that he co-founded in 1992. In addition to these positions, he also served as President and Chief Executive Officer of the firm from 1992 to 2006. Mr. Estrada is a member of the board of directors of Federal Reserve Bank of Dallas, Oncor Holdings and several civic and arts organization boards.

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Name	Age	Served As Director Since	Business Experience
Monte E. Ford	49	2008	Monte E. Ford has served as a Director of Oncor since February 2008. He has served as Senior Vice President and Chief Information Officer of AMR Corporation, the Fort Worth-based parent company of American Airlines, since 2001. Prior to joining AMR, Mr. Ford served in various executive positions, including with Associates First Capital in Texas, Bank of Boston and Digital Equipment Corporation. He helped found the Environmental Energy and Nutritional Learning Center in Boston and has served on various community and non-profit boards. Mr. Ford also serves on the board of directors of Oncor Holdings.
William T. Hill, Jr. (3)	66	2007	William T. Hill, Jr. has served as a Director of Oncor since October 2007. In 2008 he joined the Dallas criminal defense firm of Fitzpatrick Hagood Smith & Uhl LLP, where he serves as of counsel. In 2007 he served as Director of Strategic Initiatives of Mercy Street Ministries. From 1999 to 2006, Mr. Hill was Criminal District Attorney of the Dallas County District Attorney's office. Mr. Hill serves on the boards of directors of Hilltop Holdings, Incorporated, a New York Stock Exchange listed company in the insurance industry, Baylor Hospital Foundation, Oncor Holdings and a number of charitable organizations.
Jeffrey Liaw (4)	32	2007	Jeffrey Liaw has served as a Director of Oncor since November 2007. Mr. Liaw is active in TPG Capital L.P.'s (TPG) energy and industrial investing practice areas. Before joining TPG in 2005, he worked for Bain Capital in its industrials practice since 2001. Mr. Liaw serves on the boards of both public and private companies, including Graphic Packaging Corporation, EFH Corp. and Oncor Holdings.
Marc S. Lipschultz (3)	40	2007	Marc S. Lipschultz has served as a Director of Oncor since October 2007. He joined Kohlberg Kravis Roberts & Co. L.P. (KKR) in 1995. He is the leader of KKR's Energy and Infrastructure businesses. Currently, he is a director of Accel-KKR Company, Oncor Holdings and EFH Corp.
Robert S. Shapard	53	2007	Robert S. Shapard has served as the Chairman of the Board of Directors and Chief Executive of Oncor since April 2007. Mr. Shapard joined EFH Corp. in October 2005 as a strategic advisor, helping implement and execute growth and development strategies for Oncor. Between March and October 2005, he served as Chief Financial Officer of Tenet Healthcare Corporation, one of the largest for-profit hospital groups in the United States, and was Executive Vice President and Chief Financial Officer of Exelon Corporation, a large electricity generator and utility operator, from 2002 to February 2005. Mr. Shapard is also a director of Oncor Holdings and a manager of Oncor Electric Delivery Transition Bond Company LLC.

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Name	Age	Served As Director Since	Business Experience
Richard W. Wortham III (3) (4)	70	2007	Richard W. Wortham III has served as a Director of Oncor since October 2007. Since 1976 he has served as Trustee, and since November 2008 as Secretary and Treasurer, of The Wortham Foundation, Inc., a private philanthropic foundation dedicated to the support and development of Houston's cultural fabric. From 2005 to November 2008 he was Chairman and Chief Executive Officer of such foundation. Mr. Wortham also serves as a Trustee of The Hirtle Callaghan Trust, a family of mutual funds, and the Center for Curatorial Studies at Bard College and is a Life Trustee and Treasurer of The Museum of Fine Arts, Houston. Mr. Wortham is also a director of Oncor Holdings.
Steven J. Zucchet	43	2008	Steven J. Zucchet has served as a Director of Oncor since November 2008. Mr. Zucchet is a Senior Vice President of Borealis Infrastructure Management, Inc. (Borealis), an investment arm of Canada's OMERS pension plan, a position he has held since November 2003. Prior to joining Borealis, Mr. Zucchet served since 1996 as Chief Operating Officer of Enwave Energy Ltd., where he was responsible for operations and major infrastructure projects. Mr. Zucchet serves on the board of directors of Bruce Power A Inc., a Canadian private nuclear generating company.

- (1) Member of Audit Committee.
- (2) Mr. Byers was appointed to the Audit Committee effective December 19, 2008.
- (3) Member of Nominating and Governance Committee.
- (4) Member of Organization and Compensation Committee.

Director Appointments

Pursuant to the Second Amended and Restated Limited Liability Company agreement of Oncor (as amended, the "Limited Liability Company Agreement"), the Sponsor Group (through Oncor Holdings) has a right to designate two individuals to serve on our board of directors. Mr. Lipschultz, the global head of KKR's Energy and Infrastructure teams, and Mr. Liaw, who serves in the Energy and Industrial investing practice area of TPG, were designated to serve on our board of directors by the Sponsor Group. Our Limited Liability Company Agreement also grants Texas Transmission Investment LLC (Texas Transmission) the right to designate two individuals to serve on our board of directors. Richard C. Byers and Steven J. Zucchet, each of whom is an officer of Borealis, an affiliate of Texas Transmission, were designated to serve on our board of directors by Texas Transmission.

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Director Independence

Our Limited Liability Company Agreement provides that six members of our board of directors must be deemed independent. For a director to be deemed independent, our board of directors must affirmatively determine that such director does not have a material relationship with Oncor or EFH Corp. or its successors and subsidiaries, any entity that controls or owns directly or indirectly more than 49% of the equity interests in Oncor, and certain other specified entities that directly or indirectly own securities of Oncor (collectively, the "Non-Ring Fenced Entities"). In addition, to be deemed independent a director must also meet the independence standards in Section 303A of the New York Stock Exchange Manual in all material respects. Our Limited Liability Company Agreement further provides that a director that otherwise meets these requirements will not be precluded from qualifying as independent if such director otherwise meets such criteria but (i) served as a director or shareholder of EFH Corp. prior to the Merger, (ii) indirectly or beneficially owns equity interests through a mutual fund or similar investment vehicle with respect to which the director does not have discretion or control over the investments held by such investment vehicle, (iii) directly or indirectly holds an amount of legal or beneficial stock in any of the Non-Ring Fenced Entities that is de minimis and which the other independent directors determine would not reasonably be expected to influence the judgment of such director in determining the interests of Oncor or its members, or (iv) is a ratepayer, supplier, creditor or independent contractor of, or a person who received any benefit from or provided any services to, Oncor, Oncor Holdings or any of the Non-Ring Fenced Entities, if the other independent directors determine that such relationship would not reasonably be expected to influence the judgment of the director in determining the interests of Oncor or its members. In addition, our Limited Liability Company Agreement requires that two of the six independent members of our board of directors also meet additional independence qualifications. These directors, known as special independent directors, may not, during their service as a director or at any time in the five years preceding their appointment, be (i) a direct or indirect legal or beneficial owner in Oncor, Oncor Holdings or any of the Non-Ring Fenced Entities, (ii) a creditor; supplier; employee; officer; director; family member of any officer, employee or director; manager or contractor of Oncor, Oncor Holdings or any of the Non-Ring Fenced Entities, or (iii) a person who controls (directly, indirectly or otherwise) Oncor, Oncor Holdings or any of the Non-Ring Fenced Entities or any creditor, supplier, employee, officer, director, manager or contractor of Oncor, Oncor Holdings or any of the Non-Ring Fenced Entities. However, a director will not be precluded from being deemed a special independent director if such director otherwise meets the requirements but (i) indirectly or beneficially owns stock through a mutual fund or similar diversified investment vehicle (other than investment vehicles affiliated with KKR, TPG or Goldman Sachs & Co.), or (ii) directly or indirectly legally or beneficially owns interests in a Non-Ring Fenced Entity, if such ownership does not exceed one percent of the net worth of such director. A special independent director may also serve as an independent director of Oncor Holdings or any of Oncor's subsidiaries.

Our board of directors has determined that Ms. Brownell and Messrs. Estrada, Dunning, Ford, Hill and Wortham, are independent directors. Further, our board of directors has determined that each of Ms. Brownell and Mr. Hill qualifies as a special independent director under the standards set forth in our Limited Liability Company Agreement.

Our board of directors has designated an Audit Committee, Nominating and Governance Committee and Organization and Compensation Committee to exercise certain powers and authorities of the board of the directors. Members of these committees are not required by our Limited Liability Company Agreement or board of directors to meet any independence standards. Each of Mr. Liaw and Mr. Lipschultz have served on the organization and compensation committee and nominating and governance committee, respectively, since such committee's inception. Mr. Byers was appointed to the audit committee effective December 19, 2008. None of Mr. Liaw, Mr. Lipschultz or Mr. Byers qualifies as an independent director for purposes of our Limited Liability Company Agreement.

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Executive Officers

The names of Oncor Electric Delivery Company LLC executive officers and information about them, as furnished by the executive officers themselves, are set forth below:

Name	Age	Positions and Offices Presently Held	Date First Elected to Present Offices	Business Experience (Preceding Five Years)
Robert S. Shapard	53	Chairman of the Board and Chief Executive	April 2007	Robert S. Shapard has served as the Chairman of the Board of Directors and Chief Executive of Oncor since April 2007. Mr. Shapard joined EFH Corp. in October 2005 as a strategic advisor, helping implement and execute growth and development strategies for Oncor. Between March and October 2005, he served as Chief Financial Officer of Tenet Healthcare Corporation, one of the largest for-profit hospital groups in the United States, and was Executive Vice President and Chief Financial Officer of Exelon Corporation, a large electricity generator and utility operator, from 2002 to February 2005. Mr. Shapard is also a director of Oncor Holdings and a manager of Oncor Electric Delivery Transition Bond Company LLC.
Rob D. Trimble III	60	President and Chief Operating Officer	July 2004	Rob D. Trimble III has served as President and Chief Operating Officer of Oncor since July 2004, with responsibility for Oncor's operations, focusing on safety, reliability, customer/employee interaction and maintaining service levels at a low-cost. He served as President of Oncor from July 2003 to July 2004. In 1998 he was named Senior Vice President, Texas Utilities Electric and Gas, a position that became Senior Vice President of Operations of Oncor in December 2001.

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Name	Age	Positions and Offices Presently Held	Date First Elected to Present Offices	Business Experience (Preceding Five Years)
David M. Davis	51	Vice President and Chief Financial Officer	July 2006	David M. Davis is Vice President and Chief Financial Officer of Oncor, a position he has held since July 2006. Prior to serving in his current role, he held a leadership position in the finance and financial planning function since he joined Oncor in 2004. From 1991 to 2004, Mr. Davis served in various positions at EFH Corp. including roles in information technology and financial planning. Mr. Davis is a certified public accountant. Mr. Davis is also a manager of Oncor Electric Delivery Transition Bond Company LLC.
James A. Greer	48	Senior Vice President, Asset Management and Engineering	October 2007	James A. Greer has served as Senior Vice President, Asset Management and Engineering of Oncor since October 2007. He is responsible for the development of strategies, policies and plans for optimizing the value and performance of electric delivery systems and related assets. From 2004 to 2007, Mr. Greer served a similar role as Vice President of Oncor. Since joining EFH Corp. in 1984, Mr. Greer has held a number of leadership positions within Oncor and EFH Corp. in such areas as engineering, operations and governmental relations.
Brenda L. Jackson	58	Senior Vice President, Business Operations	October 2004	Brenda L. Jackson has served as Senior Vice President, Business Operations of Oncor since October 2004, overseeing activities including customer operations and service, community relations, economic development initiatives and corporate communications. From April 2003 until October 2004 she held the position of Senior Vice President, Customer and Community Relations. Ms. Jackson has served EFH Corp. and Oncor for 35 years and has held leadership positions related to customer operations, customer service and community relations functions.

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Name	Age	Positions and Offices Presently Held	Date First Elected to Present Offices	Business Experience (Preceding Five Years)
Charles W. Jenkins III	57	Senior Vice President, Transmission and System Operations	October 2007	Charles W. Jenkins III is Senior Vice President, Transmission and System Operations of Oncor, a position he has held since October 2007, having responsibilities for transmission engineering, construction and field operations and overseeing third-party interconnections to the transmission system. Prior to his current position, Mr. Jenkins served as a Vice President of Oncor since April 2003. He currently serves on the board of directors of the Electric Reliability Council of Texas.
Brenda J. Pulis	50	Senior Vice President, Distribution	July 2004	Brenda J. Pulis is Senior Vice President, Distribution of Oncor, a position she has held since July 2004. In her current role, Ms. Pulis is responsible for designing, constructing, maintaining and operating distribution assets. She was a Vice President in Oncor's distribution organization between 2001 and July 2004. Ms. Pulis originally joined Oncor in 1978 and has served in a number of areas during her tenure, including distribution engineering design, rates and regulatory, power delivery and operations.
Don J. Clevenger	38	Vice President, External Affairs	June 2008	Don J. Clevenger has served as Vice President, External Affairs of Oncor since June 2008. He was Vice President, Legal and Corporate Secretary of Oncor from December 2007 to June 2008. Between November 2005 and December 2007 Mr. Clevenger held a leadership position in Oncor with various legal and regulatory responsibilities. Prior to his transfer to Oncor in November 2005, he was Senior Counsel of the Business Services unit of EFH Corp. since April 2004. Mr. Clevenger was a partner in the law firm of Hunton & Williams LLP before he joined EFH Corp.

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Name	Age	Positions and Offices Presently Held	Date First Elected to Present Offices	Business Experience (Preceding Five Years)
Debra L. Elmer	52	Vice President, Human Resources	September 2006	Debra L. Elmer has served as Vice President, Human Resources of Oncor since September 2006. From her transfer to Oncor from EFH Corp. in 2004 to September 2006, she served in a managerial role responsible for Oncor's performance management. Since joining EFH Corp. in 1982, Ms. Elmer has held a number of positions within EFH Corp., principally in the leadership of human resources activities.

There is no family relationship between any of the above-named executive officers.

Audit Committee

The Audit Committee is a separately-designated standing audit committee, established in accordance with section 3(a)(58)(A) of the Securities Exchange Act of 1934, as amended. Our Audit Committee is composed of Ms. Brownell, Mr. Byers and Mr. Estrada. Mr. Estrada is an "Audit Committee Financial Expert" as defined in Item 407(d)(5) of SEC Regulation S-K.

Code of Conduct

We have adopted a Code of Conduct which applies to all of our employees and officers, including our Chief Executive, Chief Operating Officer, Chief Financial Officer and Controller. Printed copies of the Code of Conduct are available to any person without charge upon written request to the Corporate Secretary of Oncor Electric Delivery Company LLC at 1601 Bryan Street, Suite 22-020B, Dallas, Texas 75201-3411.

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Item 11. EXECUTIVE COMPENSATION

Compensation Discussion and Analysis

Overview

Oncor is an indirect, majority-owned subsidiary of EFH Corp. but has an independent board of directors separate from the board of directors of EFH Corp. Oncor's board of directors has designated an Organization and Compensation Committee of the board of directors (O&C Committee) to establish and assess our executive compensation policies, which include participation in Oncor-sponsored programs as well as certain employee benefit programs sponsored by EFH Corp. The O&C Committee met three times in 2008.

The responsibilities of the O&C Committee include:

- determining and overseeing executive compensation programs, including making recommendations to our board of directors, when and if their approval is required, with respect to the adoption, amendment or termination of incentive compensation, equity-based and other executive compensation and benefits plans, policies and practices;
- reviewing and approving corporate goals and objectives relevant to executive compensation and evaluating the performance of our Chief Executive (CEO) and other executive officers in light of those goals and objectives and ultimately approving executive compensation based on those evaluations; and
- advising our board of directors with respect to compensation of its outside directors.

In determining the compensation of the executives reporting to the CEO, including the executive officers named in the Summary Compensation Table below (each, a Named Executive Officer; collectively, the Named Executive Officers), the O&C Committee seeks the input of the CEO on the performance of these individuals and the CEO's recommendations regarding individual compensation actions. For more information about each of the incentive and other benefit plans available to our executive officers see the compensation tables and the accompanying narratives immediately following "– Compensation Discussion and Analysis". At the end of each year, the CEO reviews market data provided by the company's compensation consultant and assesses the performance of each of the executives reporting to the CEO against such executive's annual goals and those of such executive's respective business unit/function and presents a performance discussion and compensation recommendation for each of these individuals to the O&C Committee. The O&C Committee then determines compensation for these executives each February. The O&C Committee annually evaluates the CEO's performance in light of the goals and objectives for the applicable year and determines the CEO's compensation, including base salary, annual incentive award and long-term incentive awards, based on this evaluation. Each February the O&C Committee also approves corporate goals and objectives relevant to the compensation of all executive officers for the current fiscal year, including the CEO.

Compensation Philosophy

Our compensation philosophy, principles and practices are intended to compensate executives appropriately for their contribution to the attainment of key strategic objectives, and to strongly align the interests of executives and equity holders through equity-based plans and performance goals. To achieve those objectives, we believe that:

- Levels of executive compensation should be based upon an evaluation of the operational performance of our business (including financial performance, reliability and safety) and individual executives as well as a comparison to compensation levels of persons with comparable responsibilities in business enterprises of similar size, scale, complexity, risk and performance;
- Compensation plans should balance both short-term and long-term objectives; and
- The overall compensation program should emphasize variable compensation elements that have a direct link to company and individual performance.

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Objectives of Compensation Philosophy

Our compensation philosophy is designed to meet the following objectives:

- Attracting and retaining high performers;
- Rewarding business unit and individual performance by providing compensation levels consistent with the level of contribution and degree of accountability;
- Aligning performance measures with our goals and allocating a significant portion of the compensation to incentive compensation in order to drive the performance of our business,
- Basing incentive compensation in part on the satisfaction of company operational metrics, rather than solely the satisfaction of financial targets, in order to improve the services Oncor provides its customers; and
- Creating value for our equity holders and promoting the long-term performance of the company by strengthening the correlation between the long-term interests of our executives and the interests of our equity holders.

Elements of Compensation

In an effort to achieve our compensation objectives, we have established a compensation program for our executives that principally consists of:

- Base salary;
- Short-term incentives through the opportunity to earn an annual performance bonus pursuant to the Oncor Executive Annual Incentive Plan (Executive Annual Incentive Plan);
- Long-term incentives through (a) the opportunity to purchase equity interests in Investment LLC, granted at the O&C Committee's discretion pursuant to the 2008 Equity Interests Plan for Key Employees of Oncor Electric Delivery Company LLC and its Affiliates (Equity Interests Plan), and (b) the opportunity to receive stock appreciation rights (SARs) granted pursuant to the Oncor Electric Delivery Company LLC Stock Appreciation Rights Plan (SARs Plan);
- Deferred compensation and retirement plans through (a) the opportunity to participate in a salary deferral program (EFH Salary Deferral Program) and thrift savings plan (EFH Thrift Plan), each sponsored by EFH Corp., and receive certain company matching contributions, (b) the opportunity to participate in a retirement plan (EFH Retirement Plan) and supplemental retirement plan (EFH Supplemental Retirement Plan), each sponsored by EFH Corp. and (c) for executives hired prior to January 1, 2002, an employer-paid subsidy for health coverage upon the executive's retirement from Oncor;
- Perquisites and other benefits; and
- Contingent payments through a change of control policy and a severance plan.

Compensation Consultant

In 2008, the O&C Committee utilized Watson Wyatt Worldwide (Watson Wyatt), an independent compensation consultant, to advise and report directly to the O&C Committee on executive compensation issues, including multi-utility index and other benchmarks, median competitive compensation data, performance measurements and peer group selection. Watson Wyatt provided the O&C Committee with market data for a peer group composed of the companies listed below in order to provide a perspective on executive compensation across the entire transmission/distribution industry.

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Market Data

We assess compensation of our executives against a number of companies in the transmission/distribution and fully integrated utilities group. While we try to ensure that the bulk of an executive officer's compensation is directly linked to our financial and operational performance, we also try to ensure that our executive compensation program is competitive with that of our peer group in order to reduce the risk of losing key personnel and to attract high-performing executives from outside our company. The peer group of companies that was selected is listed below:

American Electric Power Co.
Consolidated Edison Inc.
Pepco Holdings Inc.
CenterPoint Energy Inc.
Northeast Utilities

OGE Energy Corp.
TECO Energy Inc.
NSTAR
DPL Inc.
Portland General Electric Co.

Aquila Inc.
Cleco Corp.
El Paso Electric Co.
Idacorp Inc.
ITC Holdings Corp.

The peer group listed above included both transmission/distribution utility companies as well as fully integrated utility companies because we compete with both for qualified executive personnel. Market data for total direct compensation (base salary, target annual incentive and expected value of long-term incentive awards) of the peer group is developed at both the 50th and 75th percentiles in order to provide the O&C Committee with a broad market view and multiple benchmarks. The O&C Committee targets total direct compensation around the 50th percentile of the peer group.

Compensation Elements

A significant portion of each executive officer's compensation is variable, at-risk and directly linked to achieving company performance objectives set by the O&C Committee and the alignment with equity owner interests in order to achieve long-term success. Other factors impacting compensation include individual performance, retention risk, and market compensation data. None of these other factors are weighted but are considered together. The company has no policies or formula for allocating compensation among the various elements. The following is a description of the principal compensation components provided to our executives.

Base Salary

We believe that base salary should be commensurate with the scope and complexity of each executive's position and the level of responsibility required. We believe that a competitive level of base salary is required to attract and retain qualified talent.

The O&C Committee reviews and determines executive officer base salaries annually, although salaries may remain unchanged for a period of time once they have achieved market levels. The annual review begins with a survey of competitive salaries of the peer group described above by Watson Wyatt. Our CEO then reviews the information in the survey, along with the performance and level of responsibility of each other officer, and makes recommendations to the O&C Committee regarding the salaries for the executive officers other than the CEO. Salary increases also can be approved by the O&C Committee as a result of an executive's promotion or a significant change in an executive's responsibilities.

Between October 2004 and the closing of the Merger, base salaries (which were generally set at approximately the median of the base salaries provided by our competitive peer groups) had generally been held flat when the company was at the beginning stages of a turnaround phase of its business strategy and compensation focused on long-term equity holder value creation. In 2007 and February 2008, we offered significant base salary increases to certain of our executive officers who have leadership roles within our business in order to entice them to remain with Oncor and to recognize their increased responsibilities as Oncor transitioned into an operating unit separate from EFH Corp. with greater autonomy and a separate board of directors and management team. Because Oncor operates separately from EFH Corp. and its other subsidiaries, the Sponsor Group felt that it was important to retain our executive leadership to facilitate and maintain strong operating performance. In November 2008, after reviewing the survey by Watson Wyatt and our CEO's recommendations, the O&C Committee approved salary increases for Rob D. Trimble, our president and chief operating officer, David M. Davis, our vice president and chief financial officer, and Charles W. Jenkins, our senior vice president, transmission and system operations.

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Annual Base Salary for Named Executive Officers

Name	Title	As of December 31, 2008
Robert S. Shapard	Chairman of the Board and Chief Executive	\$ 650,000
Rob D. Trimble III (1)	President and Chief Operating Officer	\$ 500,000
David M. Davis (2)	Vice President and Chief Financial Officer	\$ 300,000
Brenda L. Jackson	Senior Vice President, Business Operations	\$ 257,000
Charles W. Jenkins III (3)	Senior Vice President, Transmission and System Operations	\$ 275,000

- (1) Mr. Trimble's annual base salary was increased by the O&C Committee from \$325,000 effective November 11, 2008.
- (2) Mr. Davis's annual base salary was increased by the O&C Committee from \$220,000 effective November 11, 2008.
- (3) Mr. Jenkins's annual base salary was increased by the O&C Committee from \$222,300 to \$235,000 effective February 26, 2008 and was later increased by the O&C Committee to \$275,000 effective November 11, 2008.

Executive Annual Incentive Plan

Summary

The Executive Annual Incentive Plan is a cash bonus plan intended to provide a performance-based annual reward for the successful attainment of certain annual performance goals and business objectives that are established by the O&C Committee. These targets are established on a company-wide basis and the O&C Committee generally seeks to set these targets at challenging levels.

Under the terms of the Executive Annual Incentive Plan, no awards may be paid unless funding triggers set by the O&C Committee based on earnings before interest, taxes, depreciation and amortization (EBITDA) and operating cash flow are met. The EBITDA and operating cash flow funding triggers are each weighted at 50%. The O&C Committee sets a threshold funding trigger required to obtain any funding for the applicable financial metric and a target funding trigger, the achievement of which is required to achieve full funding. Actual funding for each financial metric is based on actual results measured against the target. The O&C Committee uses these financial metrics to assist it in determining a final funding percentage for the plan year.

To calculate an executive officer's award amount, the final funding percentage is multiplied by the executive officer's target award, which is computed as a percentage of actual base salary. Based on the executive officer's performance, as described below, an individual performance modifier is applied to the calculated award to determine the final incentive payment. An individual's target award is subject to a pro rata reduction if the aggregate award amounts payable under the Executive Annual Incentive Plan, after factoring in the individual performance modifiers, exceeds the aggregate amount of funds available under the Executive Annual Incentive Plan for the applicable plan year.

The O&C Committee sets performance goals, target awards and performance modifiers in its discretion.

Table of Contents**Funding Percentage**

For 2008, the funding triggers and actual results under the Executive Annual Incentive Plan were as follows:

	<u>Weighting</u>	<u>Threshold (\$ in millions)</u>	<u>Target (\$ in millions)</u>	<u>Actual Results (\$ in millions)</u>	<u>Funding Percentage</u>
EBITDA	50%	1265	1360	1315	38.2%
Operating cash flow	50%	752	809	827	50.0%

For 2008, the funding percentages available under these financial metrics were weighted equally and aggregated in order to determine the aggregate funding percentage for the above financial metrics. For 2008, the funding percentage under these financial metrics was 88.2%. Once the funding percentage was established using the financial metrics, the O&C Committee then exercised its discretion and adjusted the funding percentage based on an evaluation of the company's performance with respect to certain operational targets relating to financial, reliability and safety metrics. These operational targets were used by the O&C Committee to determine a performance funding percentage. The purpose of these operational targets, which are based on safety, reliability and cost management metrics, is to promote enhancement of our services to customers.

In 2008, satisfaction of safety metrics comprised 30% of the performance funding percentage. The safety metric measures the number of employee injuries using a Days Away, Restricted or Transfer (DART) system, which measures the amount of time our employees are away from their regular employment posts due to injury. DART is measured in the number of injuries per 200,000 hours and does not include employees that are part of the individual performance incentive program offered to our meter readers. The safety metric is important to enhancing our operations because it promotes the health and welfare of our employees. In addition, lowering the number of accidents reduces our costs of doing business, which in turn contributes to lower rates for our customers.

In 2008, satisfaction of reliability metrics comprised 30% of the performance funding percentage. Reliability is measured by the System Average Interruption Duration Index (SAIDI), which measures the average number of minutes electric service is interrupted per consumer in a year. This metric promotes our commitment to minimizing service interruptions to our customers as the lower the SAIDI level for the year, the greater the funding percentage under the Executive Annual Incentive Plan. Since weather can greatly impact reliability and is outside of our control, the reliability metric measures SAIDI on a non-storm basis.

In 2008, satisfaction of cost management metrics comprised the final 40% of the performance funding percentage, half of which is based on the achievement of operation and maintenance expense (O&M) and sales, general and administrative expense (SG&A) levels and half of which is based on deviation of actual capital expenditures from the capital expenditure budget for the year. The purpose of the O&M and SG&A metric is to promote lower expenditures, which in turn contributes to lower rates for our customers. The purpose of the capital performance metric is to promote capital expenditures in line with the budget previously set for the year. While this metric discourages exceeding the budget, it also discourages falling too far below the budget, as we believe capital expenditures such as improving facilities are important to enhancing our services.

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For 2008, the operational targets under the Executive Annual Incentive Plan were as follows:

Goal	Weighting	Threshold (1)	Target (2)	Superior (3)	Actual Results	Funding Percentage
DART	30%	Safety 1.19	1.03	0.96	0.87	45.0%
Non-storm SAIDI (in minutes)	30%	Reliability 80.1	76.9	73.7	85.40	0.0%
O&M and SG&A (\$ in millions)	20%	Financial \$ 556	\$ 520	\$ 484	\$ 529	17.5%
Capital expenditure performance versus capital expenditure budget	20%	97-97.99%	98-98.99%	99-101.49%	101.1%	30.0%
		103-105%	101.5-102.99%			

- (1) Achievement of the threshold operational metric level results in funding of 50% of the available funding percentage for that specific operational metric.
- (2) Achievement of the target operational metric level results in funding of 100% of the available funding percentage for that specific operational metric.
- (3) Achievement of the superior operational metric level results in funding of 150% of the available funding percentage for that specific operational metric.

Based on the level of attainment of these operational targets, an aggregate performance funding percentage amount for all participants is determined. For 2008, this aggregate performance percentage was 92.5%. Pursuant to the power to adjust awards granted to the O&C Committee in the Executive Annual Incentive Plan, the O&C Committee then adjusts the aggregate plan funding percentage based on the aggregate performance funding percentage in its discretion. In 2008, the O&C Committee exercised its discretion and determined that the aggregate performance funding percentage of 92.5% warranted setting a final funding percentage at 90% rather than the 88.2% funding percentage determined using the financial metrics.

To determine the aggregate amount of funds available under the Executive Annual Incentive Plan, the final funding percentage described above was multiplied by the aggregate amount payable to all plan participants pursuant to their target incentive awards.

Individual Performance Modifier and Determination

As described above calculate an executive officer's award amount, the final funding percentage is multiplied by the executive officer's target award, which is computed as a percentage of actual base salary. Based on the executive officer's performance, an individual performance modifier is applied to the calculated award to determine the final incentive payment. An individual performance modifier is based on reviews and evaluations of the executive officer's performance by the CEO, our executive team and the O&C Committee (or solely the O&C Committee in the case of our CEO). The individual performance modifier can range from an outstanding rating (200%) to an unacceptable rating (0%) and is determined on a subjective basis. Factors used in determining individual performance modifiers may include operational measures (including the financial, reliability and safety metrics discussed above), company objectives, individual management and other goals, personal job objectives and competencies, the demonstration of team building and support attributes and general demeanor and behavior.

The O&C Committee determines annual target award percentages for executives based on an analysis of a survey of market practices conducted annually by Watson Wyatt. These awards are based on a target payout, which is a percentage of the applicable officer's base salary during the performance period. The target award is set near the median of the comparable market.

Table of Contents**Actual Award Amounts for 2008**

The following table provides a summary of the 2008 targets and actual awards for each Named Executive Officer. All awards under the Executive Annual Incentive Plan are made in the form of lump sum cash payments to participants by March 15 of the year following the plan year to which the award relates.

2008 Annual Incentives (Payable in 2009) for Oncor Named Executive Officers

Name	Target Payout (% of Salary)	Target Award (\$ Value)	Actual Award	Actual Award (% of Target)
Robert S. Shapard	75%	\$ 487,500	\$ 526,500	107.9%
Rob D. Trimble III (1)	40%	\$ 168,750	\$ 197,438	117.0%
David M. Davis (2)	50%	\$ 98,333	\$ 97,350	99.0%
Brenda L. Jackson	40%	\$ 102,800	\$ 101,772	99.0%
Charles W. Jenkins III (3)	40%	\$ 96,665	\$ 113,098	117.0%

- (1) Effective November 11, 2008, Mr. Trimble's target payout was reduced to 40% from 50%, in connection with an increase in Mr. Trimble's base salary. His target award and actual award reflect the aggregate of (a) the amount of his 50% target payout multiplied by his base salary that was in effect from January 1, 2008 to November 10, 2008, plus (b) the amount of his 40% target payout multiplied by his base salary that was in effect from November 11, 2008 to December 31, 2008.
- (2) Effective November 11, 2008, Mr. Davis's target payout was increased to 50% from 40% and his base salary was increased. His target award and actual award reflect the aggregate of (a) the amount of his 40% target payout multiplied by his base salary that was in effect from January 1, 2008 to November 10, 2008, plus (b) the amount of his 50% target payout multiplied by his base salary that was in effect from November 11, 2008 to December 31, 2008.
- (3) Mr. Jenkins's base salary increased effective February 26, 2008 and November 11, 2008. His target award and actual award reflect the aggregate of (a) the amount of his target payout multiplied by his base salary that was in effect from January 1, 2008 to November 10, 2008, plus (b) the amount of his target payout multiplied by his base salary that was in effect from November 11, 2008 to December 31, 2008. Solely for purposes of calculating his target award and actual award, Mr. Jenkins' base salary from January 1, 2008 to February 26, 2008 was considered to be \$235,000, although Mr. Jenkins' actual base salary increase was not effective until February 26, 2008.

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Long-Term Incentives

Our long-term incentive program consists of the Equity Interests Plan and the SARs Plan. The purpose of our long-term incentive program is to promote the long-term financial interests and growth of Oncor by attracting and retaining management and other personnel and key service providers. Our long-term incentive program was developed to enable us to be competitive in our compensation practices and because we believe that equity ownership in Oncor under the Equity Interests Plan and the opportunity to benefit from the appreciation of the value of our equity interests under the SARs Plan motivate our management to work towards the success of our business and align management's interests with those of our equity holders. In addition, we believe that certain employment-related conditions and time-based vesting restrictions of these programs, as discussed in more detail below, provide significant retentive value to us.

Equity Interests Plan and Management Investment Opportunity

The Equity Interests Plan allows our board of directors to offer non-employee directors, management and other personnel and key service providers of Oncor the right to invest in Class B membership units of Investment LLC (each, a Class B Interest), an entity whose sole assets consist of equity interests in Oncor. As a result, each holder of Class B Interests holds an indirect ownership interest in Oncor.

Our board of directors administers the Equity Interests Plan and has the power to determine the participants, the number of Class B Interests offered to any participant, the purchase price of the Class B Interests and the other terms of the award. Our board of directors may also amend, suspend or terminate the Equity Interests Plan at any time. Upon purchasing any Class B Interests, participants may be required to enter into certain agreements with the Company and Investment LLC, including a management stockholder's agreement and a sale participation agreement described below. The Equity Interests Plan will terminate on November 5, 2018 or an earlier or a later date determined by our board of directors.

In November 2008, pursuant to the terms of the Equity Interests Plan, our board of directors offered certain officers and key employees the opportunity to invest in Investment LLC and receive one Class B Interest for each \$10.00 (which our board of directors determined to be the fair market value of each Class B Interest) invested, as well as an amount of SARs based on the aggregate amount invested (Management Investment Opportunity). SARs received in connection with the Management Investment Opportunity are subject to the terms of the SARs Plan described below. Participants in the Management Investment Opportunity were also given the option to fund any or all of their investment in Investment LLC using funds in their EFH Salary Deferral Program accounts. Any Class B Interests purchased by an executive officer using funds in his or her EFH Salary Deferral Program account are held of record by the EFH Salary Deferral Program for the benefit of such officer.

In connection with the Management Investment Opportunity, each participant entered into a management stockholder's agreement and a sale participation agreement. The management stockholder's agreement, among other things, gives Oncor the right to repurchase a participant's Class B Interests in the event of specified terminations of a participant's employment or violation by a participant of certain of his or her non-compete obligations. We believe this repurchase right provides significant retentive value to our business. For a more detailed description of the terms of the management stockholder's agreement and sale participation agreement, please see "Certain Relationships and Related Transactions – Related Party Transactions – Agreements with Management."

The target investment amount for each participant in the Management Investment Opportunity was determined by the Sponsor Group and the CEO and approved by the O&C Committee. In determining such amounts, the Sponsor Group, the CEO and the O&C Committee wanted to ensure that each participant had a meaningful investment in Oncor. Factors considered in determining the target investment amounts included the amount received by each participant in connection with termination of the awards under TXU Corp. 2005 Omnibus Plan (Omnibus Plan) described below, and base salary and investment amounts of similarly situated employees participating in the program.

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Pursuant to its limited liability company agreement, Investment LLC must at all times ensure that for each outstanding Class B Interest it issues, Investment LLC holds a corresponding number of units of Oncor's equity interests. As a result, any future issuances under the Equity Interests Plan will require Investment LLC to purchase from Oncor Holdings additional equity interests of Oncor. Investment LLC has entered into a revolving stock purchase agreement with Oncor Holdings pursuant to which Investment LLC may purchase units of Oncor's equity interests held by Oncor Holdings in the event Investment LLC proposes to issue additional Class B Interests pursuant to the Equity Interests Plan. The aggregate number of equity interests sold by Oncor Holdings pursuant to the revolving stock purchase agreement, however, cannot result in Oncor Holdings owning less than 80% of Oncor's outstanding equity interests, or 508,000,000 units. As of February 27, 2009, Investment LLC may purchase from Oncor Holdings up to an additional 209,860 units of Oncor and issue up to a corresponding number of Class B Interests.

Stock Appreciation Rights

The O&C Committee adopted and implemented the SARs Plan in 2008. The O&C Committee determines the participants and can include certain employees of Oncor or other persons having a relationship with Oncor, its subsidiaries or affiliates. SARs granted under the SARs Plan have a base price equal to the fair market value per unit of Oncor's equity interests on the date of the grant and will allow participants to participate in the economic equivalent of the appreciation of the Oncor equity interests. The O&C Committee administers the SARs Plan. The O&C Committee makes awards under the SARs Plan at its discretion.

Under the SARs Plan, the O&C Committee may grant either time-vesting awards (time-based SARs) and/or performance-vesting awards (performance-based SARs). In 2008, the O&C Committee granted both time-based and performance-based SARs to certain executive officers and other key employees in connection with their equity investments in Investment LLC. Time-based SARs vest with respect to 20% of the Oncor equity interests subject to such awards on each of the first five anniversaries of October 10, 2007. Performance-based SARs become vested as to 20% of the Oncor equity interests subject to such awards at the end of each of Oncor's five fiscal years (which end each December 31) from 2008 to 2012, provided that Oncor meets specified financial targets. In the event we fail to meet a specified financial target in a given fiscal year, under certain circumstances the applicable award may vest in a subsequent year if cumulative targets including such year are met.

Vesting of performance-based SARs eligible to vest in 2008 was subject to Oncor's achievement of an EBITDA target of \$1,183,294,157 excluding securitization revenue, amortization of purchase accounting adjustments and the goodwill impairment. The O&C Committee set this target based on historical performance and expected future performance. Actual 2008 EBITDA for purposes of the SARs Plan was \$1,175,483,215, which differed from the target by 0.66%. However, in February 2009 the O&C Committee exercised its authority under the SARs Plan to vest such performance-based SARs on the basis that Oncor's EBITDA for 2008 was not materially less than the EBITDA target and demonstrated an appropriate level of performance. As a result, all performance-based SARs eligible to vest in 2008 are deemed to have vested as of December 31, 2008.

The vesting of the SARs does not entitle the grantee to exercise the SARs until certain events occur as described below: (1) all time-based SARs vest and become exercisable upon the termination of the participant's employment by Oncor without "cause" or by the participant with "good reason" following a "change in control" (as those terms are defined in the SARs Plan); (2) except as otherwise provided in an award letter and subject to the participant's employment on the date of the applicable event, vested time-based SARs and vested performance-based SARs become exercisable as to the Oncor equity interests subject to such vested SARs immediately prior to an "EFH realization event" (as defined in the SARs Plan) in the same proportion as EFH Corp. or certain associated persons realize liquidity in connection with such event; (3) all unvested performance-based SARs become vested and exercisable, subject to certain conditions, upon any "liquidity event" (as defined in the SARs Plan), so long as the participant is still employed by Oncor on such date; and (4) if a participant retires or his or her employment is terminated by Oncor without cause or by the participant for good reason, vested, but unexercisable, awards as of the date of the participant's termination or retirement may become exercisable at a later date, in the percentages set forth in the SARs Plan, following the occurrence of certain events. These events generally include a change of control, an EFH realization event, a liquidity event or the achievement of certain financial returns as described in the SARs Plan. In addition to the foregoing, our board of directors and the O&C Committee have the right to accelerate vesting and exercisability of a participant's award under the SARs Plan at any time in their respective discretion.

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Subject to the terms described in the previous paragraph, the SARs may be exercised in part or in full prior to their termination. Upon the exercise of an award, the participant will be entitled to receive a cash payment equal to the product of (1) the difference between the fair market value per Oncor equity interest on the date giving rise to the payment and the fair market value at the time of the award grant, and (2) the number of SARs exercised by the participant. In the event of an initial public offering of Oncor's equity interests or equity interests of a successor vehicle, the awards may be satisfied in equity interests of the public company, cash or a combination of both, at the election of our board of directors.

Generally, awards under the SARs Plan terminate on the tenth anniversary of the grant, unless the participant's employment is earlier terminated under certain circumstances. The SARs Plan will terminate on the later of November 5, 2018 or such other date determined by our board of directors.

All SARs awarded in 2008 have a base price of \$10.00 per unit, which base price represents the amount per unit paid by Texas Transmission in connection with its November 2008 investment in Oncor. The O&C Committee based the number of SARs awarded to our executive officers and other key employees in 2008 on equity programs offered to executives of other companies owned by private equity firms as well as the number of Class B Interests purchased by such executive in the Management Investment Opportunity. The number of SARs granted to a participant was determined based on the number of Class B Interests purchased by such executive pursuant to the Management Investment Opportunity. These grants assumed that each executive would invest his or her target investment amount, and were reduced proportionally for a lower actual investment amount. Each participant's 2008 SARs award consisted 50% of time-based SARs and 50% of performance-based SARs.

The management stockholder's agreement executed by participants in connection with the Management Investment Opportunity provides that if the participant terminates his employment without good reason prior to October 10, 2012, Oncor may redeem the vested SARs at a per unit purchase price equal to the excess, if any, of the fair market value over the base price of the SARs, less 20% of the excess. In addition, if the participant so terminates his employment, the participant must pay Oncor 20% of the amount by which any cash payment received in respect of previously vested and exercised SARs exceeded the base price of those SARs. If the participant terminates his employment without good reason on or after October 10, 2012, we may redeem the vested SARs at a per unit purchase price equal to the excess, if any, of the fair market value over the base price of the SARs. Furthermore, the management stockholder's agreement provides that upon the death or disability of the participant, the participant or participant's estate, as applicable, will be entitled to receive, in exchange for the vested SARs, a cash payment equal to the product of (1) the excess, if any, of the fair market value over the base price of the SARs and (2) the number of SARs then credited to the participant. Generally, the rights described in this paragraph will terminate on the earlier of a change in control or October 10, 2012.

In 2008, SARs were awarded only to participants in the Management Investment Opportunity. In the future, the O&C Committee may also, in its discretion, make grants of non-investment SARs to other participants. We believe that our SARs Plan is competitive relative to similar programs of other companies controlled by private equity firms and that the SARs Plan will assist us in retention and aligning our management's interests with those of our equity holders.

TXU Corp. 2005 Omnibus Plan

Prior to the Merger, awards of TXU Corp. common stock under the Omnibus Plan were offered as part of our compensation program. At the time of the Merger, all outstanding awards under the Omnibus Plan were immediately vested and were paid in lump sum cash payments, except in the case of Mr. Shapard, whose outstanding awards were immediately vested at the time of the Merger but were distributed in a lump sum cash payment of \$8,316,294 in January 2008. For fiscal year 2007, cash awards were granted under the Omnibus Plan instead of equity awards because the Merger was expected to close prior to the end of 2007. These awards made in lieu of Omnibus Plan equity awards (each a "Cash Award in Lieu of Long-Term Incentive Award") were paid in cash. One-half of the award was paid at closing of the Merger and one-half was paid in March 2008. No additional awards will be issued under the Omnibus Plan in the future.

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Deferred Compensation and Retirement Plans

Our executive compensation package includes the ability to participate in the EFH Salary Deferral Program, the EFH Thrift Plan, the EFH Retirement Plan and the EFH Supplemental Retirement Plan and, for executives hired before January 1, 2002, subsidized retiree health care coverage. We believe that these programs, which are common among companies in the utility industry, are important to attract and retain qualified executives. Although these plans are sponsored by EFH Corp., Oncor ultimately is responsible for the costs of any matching awards, premiums and other payments relating to Oncor employees pursuant to these programs.

Salary Deferral Program

The EFH Salary Deferral Program allows eligible participating employees of EFH Corp. and its subsidiaries, including Oncor, to defer a portion of their salary and annual incentive award and to receive a matching award based on their deferrals. Executives can defer up to 50% of their base salary and up to 100% of any annual incentive award, for seven years or until retirement or a combination of both. Oncor matches 100% of deferrals up to 8% of salary deferred under the program. Oncor does not match deferred annual incentive awards. The program encourages employee retention as, generally, participants who terminate their employment with us prior to the seven year vesting period forfeit our matching contribution to the program.

Prior to March 31, 2005, Oncor's executives were eligible to participate in the TXU Corp. Deferred and Incentive Compensation Plan (Deferred and Incentive Compensation Plan). Although the plan was frozen to new participants at that time, existing participants in the plan continued to hold interests in a trust established under the plan that owned shares of TXU Corp. common stock. These shares were exchanged for cash in connection with the Merger, and cash held in trust was distributed to participants, including some of our executive officers, in January 2008.

Refer to the narrative that follows the Nonqualified Deferred Compensation table below for a more detailed description of the EFH Salary Deferral Program and the Deferred and Incentive Compensation Plan.

Thrift Plan

Under the EFH Thrift Plan, all eligible employees of EFH Corp. and any of its participating subsidiaries, including Oncor, may contribute a portion of their regular salary or wages to the plan. Under the EFH Thrift Plan, Oncor matches a portion of an employee's contributions. This matching contribution is 75% of the employee's contribution up to the first 6% of the employee's salary for employees covered under the traditional defined benefit component of the EFH Retirement Plan, and 100% of the employee's contribution up to 6% of the employee's salary for employees covered under the cash balance component of the EFH Retirement Plan. All matching contributions are invested in EFH Thrift Plan investments as directed by the participant.

EFH Retirement Plan

EFH Corp. maintains the EFH Retirement Plan, which is qualified under applicable provisions of the Code and is a benefit for all of its employees and those of its participating subsidiaries, including Oncor. The EFH Retirement Plan contains both a traditional defined benefit component and a cash balance component. Effective January 1, 2002, the defined benefit plan changed from a traditional final average pay design to a cash balance design. This change was made to better align the retirement program with competitive practices. All participants were extended an opportunity to remain in the traditional program component or transition to the cash balance component. Messrs. Trimble, Davis and Jenkins and Ms. Jackson elected to remain in the traditional program.

All employees employed after January 1, 2002 are eligible to participate only in the cash balance program. As a result, Mr. Shapard is covered under the cash balance component. For a more detailed description of the EFH Retirement Plan, please refer to the narrative that follows the Pension Benefits table.

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EFH Supplemental Retirement Plan

Oncor executives participate in the EFH Supplemental Retirement Plan, which is sponsored by EFH Corp. The EFH Supplemental Retirement Plan provides for the payment of retirement benefits that:

- Would otherwise be capped by the Code's statutory limits for qualified retirement plans;
- Include Executive Annual Incentive Plan awards in the definition of earnings (for participants in the traditional program only); and/or
- EFH Corp. or its participating subsidiaries are obligated to pay under contractual arrangements.

Messrs. Trimble, Davis and Jenkins and Ms. Jackson, the Named Executive Officers who elected to remain in the traditional defined benefit retirement plan, are eligible for a supplemental retirement benefit in concert with that plan, which provides for a traditional defined benefit-type retirement monthly annuity stream. This feature of the plan is available only to executives hired prior to January 1, 2002. As such, it is not available to Mr. Shapard, who participates in the "make whole" portion of the EFH Supplemental Retirement Plan (but only as it relates to the cash balance component). The "make whole" portion provides only for the payment of retirement benefits that would otherwise be capped by the Code or for the inclusion of additional accredited service under contractual arrangements.

For a more detailed description of the EFH Supplemental Retirement Plan, please refer to the narrative that follows the Pension Benefits table below.

Retiree Health Care

Employees hired by Oncor/EFH Corp. prior to January 1, 2002 are generally entitled to receive an employer-paid subsidy for retiree health care coverage upon their retirement from Oncor. As such, Messrs. Trimble, Davis and Jenkins and Ms. Jackson will be entitled to receive a subsidy from Oncor for retiree health care coverage upon their retirement from Oncor. As Mr. Shapard was hired by EFH Corp. after January 1, 2002, he is not eligible for the employer subsidy.

Perquisites and Other Benefits

The company limits its perquisites to executive officers because it believes that generally perquisites do not fit with the culture and direction of the company. Those perquisites that are provided are intended to serve as part of a competitive total compensation program and to enhance our executives' ability to conduct company business. These benefits include financial planning, a preventive physical health exam, reimbursement for certain business-related country club and/or luncheon club membership costs and physical fitness club memberships. For a more detailed description of the perquisites, including expenditures therefor, please refer to footnote 8 in the Summary Compensation Table below.

The following is a summary of benefits offered to our other executive officers that are not available to all employees:

Executive Financial Planning. All executive officers are eligible to receive executive financial planning services. These services are intended to support them in managing their financial affairs, which we consider especially important given the high level of time commitment and performance expectation required of our executives. Furthermore, these services help ensure greater accuracy and compliance with individual tax regulations.

Executive Physical Health Exam. All executive officers are also eligible to receive an annual physical examination. We recognize the importance of the health of our senior management team and the vital leadership role they play in directing and operating the company. The executive officers are important assets of the company and this benefit is designed to help ensure their health and long-term ability to serve our equity holders.

Country Club/Luncheon Club Membership. Certain executive officers are entitled to reimbursement of country club or luncheon club memberships, as such clubs provide those officers with a setting for cultivating business relationships and interaction with key community leaders and officials.

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Physical Fitness Club Membership: Beginning in November 2008, all executive officers were eligible to receive a company-paid membership to a specified physical fitness club. This benefit is designed to help maintain the health of our executive officers.

Split-Dollar Life Insurance: As a participating subsidiary in the EFH Corp. Split-Dollar Life Insurance Program (Split-Dollar Life Insurance Program), split-dollar life insurance policies are purchased for eligible corporate executives of Oncor. The eligibility provisions of this program were modified in 2003 so that no new participants were added after December 31, 2003. Accordingly, Messrs. Shapard and Davis are not eligible to participate in the Split-Dollar Life Insurance Program. The death benefits of participants' insurance policies are equal to two, three or four times their annual Split-Dollar Life Insurance Program compensation, depending on their executive category. Individuals who first became eligible to participate in the Split-Dollar Life Insurance Program after October 15, 1996, vested in the insurance policies issued under the Split-Dollar Life Insurance Program over a six-year period. Oncor pays the premiums for the policies and has received a collateral assignment of the policies equal in value to the sum of all of its insurance premium payments; provided that, with respect to certain executives, namely Mr. Trimble, premium payments made after August 1, 2002, are made on a non-split-dollar life insurance basis and EFH Corp./Oncor's rights under the collateral assignment are limited to premium payments made prior to August 1, 2002. Although the Split-Dollar Life Insurance Program is terminable at any time, it is designed so that if it is continued, EFH Corp./Oncor will fully recover all of the insurance premium payments covered by the collateral assignments either upon the death of the participant or, if the assumptions made as to policy yield are realized, upon the later of 15 years of participation or the participant's attainment of age 65. At the Merger, the Split-Dollar Life Insurance Program was amended to freeze the death benefits at the current level.

In addition to the benefits described above, Oncor offers its executive officers the ability to participate in benefit plans for medical, dental and vision insurance, and life insurance and disability, which are generally made available to all employees at the company.

Individual Named Executive Officer Compensation

Oncor has not entered into employment agreements with any of the Named Executive Officers.

CEO Compensation

Robert S. Shapard

The following is a summary of Mr. Shapard's individual compensation for 2008:

Base Salary: In 2008, Mr. Shapard's base salary as Chairman and CEO was \$650,000.

Annual Incentive: In 2009, the O&C Committee awarded Mr. Shapard \$526,500 pursuant to the Executive Annual Incentive Plan, reflecting the result of Oncor's 2008 performance, as previously discussed, as well as Mr. Shapard's individual performance in 2008.

Long-Term Incentives: Mr. Shapard's investment in Investment LLC in 2008 pursuant to the Management Investment Opportunity was \$3,000,000, for which he received 300,000 Class B Interests and 3,750,000 SARs. Prior to the Merger, Mr. Shapard was awarded a Cash Award in Lieu of Long-Term Incentive Award in the amount of \$675,000 in connection with the Merger and termination of the Omnibus Plan. One-half of this award was paid at the close of the Merger in 2007 and one-half was paid on March 15, 2008. In addition, Mr. Shapard received \$8,316,294 in January 2008 as payment for his vested TXU Corp. common stock awards under the Omnibus Plan at the time of the Merger.