

Management's Responsibilities

In addition to providing specific guidance to the independent accountant, the attestation standards also define certain responsibilities of management. The independent accountant is not able to express an opinion unless management fulfills its stated responsibilities that include:

- identifying compliance requirements;
- establishing and maintaining internal control to provide reasonable assurance that the entity complies with those requirements;
- evaluating and monitoring compliance; and,
- specifying reports that satisfy legal, regulatory, or contractual requirements.

In addition, management has overall responsibility for ensuring compliance and for the assertions about compliance.

Reporting

Based on the results of the procedures performed as outlined above, the independent accountant will make an overall assessment as to the fair presentation, in all material respects, of management's assertions, when taken as a whole, as to the entity's compliance with the specified requirements. Any material non-compliance will be specifically reported in the independent accountant's report. In assessing materiality, the independent accountant will consider both the nature and frequency of non-compliance and other considerations, including the expectations of the users of the report.

* * * * *

This letter summarizes certain significant aspects of the applicable professional standards with respect to the conduct of an attestation engagement. The guidance included herein is provided for informational purposes only. This summary should be considered in the context of the attestation standards taken as a whole and is not intended to modify or change our responsibilities under those standards.

Yours very truly,

Price Waterhouse Coopers LLP

PUC DOCKET NO. 34077
INDEX TO THE DIRECT TESTIMONY OF
BRENDA J. PULIS, WITNESS FOR
ONCOR ELECTRIC DELIVERY COMPANY

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1 **DIRECT TESTIMONY OF BRENDA J. PULIS**

2
3 **I. POSITION AND QUALIFICATIONS**

4 Q. PLEASE STATE YOUR NAME, BUSINESS ADDRESS, AND CURRENT
5 EMPLOYMENT POSITION.

6 A. My name is Brenda J. Pulis. My business address is 1601 Bryan Street,
7 Dallas, Texas, 75201. I am currently the Senior Vice President ("SVP") of
8 Transmission & Distribution ("T&D") Asset Services for Oncor Electric
9 Delivery Company ("Oncor").

10 Q. WHAT ARE YOUR RESPONSIBILITIES IN YOUR CURRENT
11 POSITION?

12 A. As SVP of T&D Asset Services, I have responsibility for the engineering,
13 construction, maintenance and operation of the T&D system of Oncor. My
14 area of responsibility includes over 3 million customer points of delivery in
15 the northern and central portions of Texas. Because of these
16 responsibilities, I am integrally involved in all matters related to the day-to-
17 day engineering, construction, operations and maintenance of Oncor's
18 T&D system.

19 Q. PLEASE DESCRIBE YOUR EDUCATIONAL BACKGROUND AND
20 PROFESSIONAL EXPERIENCE.

21 A. I received a Bachelor of Science degree in Electrical Engineering from the
22 University of Texas at Arlington. I have been employed in various
23 engineering, project design, operations, and asset management positions
24 by the TXU Corp. system companies for over 26 years. I became SVP of
25 Distribution Operations in 2004, and I assumed my current position as
26 SVP of T&D Asset Services in 2006. I am a licensed Professional
27 Engineer in the State of Texas and am first Vice President of the Power
28 Delivery Committee of the Association of Edison Illuminating Companies,
29 a technical committee comprised of officers representing over 30 US

1 utilities dedicated to improving utility services through sharing technical
2 studies and work practices.

3 Q. HAVE YOU EVER SUBMITTED TESTIMONY BEFORE THE PUBLIC
4 UTILITY COMMISSION OF TEXAS ("Commission")?

5 A. Yes. I provided testimony to the Commission in January of 2001, at their
6 request, after two major ice storms hit the central, northern and eastern
7 parts of Texas over a two-week period.

8 **II. PURPOSE OF TESTIMONY**

9 Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?

10 A. The purpose of my testimony is to:

- 11 • provide a brief description of Oncor, including its operations;
- 12 • describe the high quality of service and reliability currently provided
13 by Oncor;
- 14 • explain why Texas Energy Future Holdings Limited Partnership's
15 ("TEF") acquisition of TXU Corp. (the "Transaction") will have no
16 adverse impacts on Oncor's operations; and
- 17 • explain how the reliability and high quality of service currently
18 provided by Oncor will be maintained after close of the transaction.

19 I have organized my testimony around the four topics set forth above.

20 **III. DESCRIPTION OF ONCOR OPERATIONS**

21 Q. PLEASE DESCRIBE ONCOR'S OPERATIONS.

22 A. Oncor is a T&D utility that owns and operates facilities used to transmit
23 and distribute electricity throughout portions of Texas. Oncor delivers
24 electricity to more than 3.1 million wholesale and retail customers in 403
25 cities and 92 counties. Please see Attachment A to Oncor's Application
26 for Sale, Transfer, or Merger filed in this docket for a listing of the cities

1 served by Oncor. Oncor's mission is to deliver electricity safely, reliably,
2 and economically.

3 Q. PLEASE DESCRIBE ONCOR'S SERVICE TERRITORY AS OF APRIL
4 25, 2007.

5 A. The service territory of Oncor is shown on my Exhibit BJP-1, which
6 includes a depiction of Oncor's distribution service area and the location of
7 Oncor's 345 kV, 138 kV, and 69 kV transmission lines.

8 Q. PLEASE DESCRIBE ONCOR'S T&D ASSETS AS OF DECEMBER 31,
9 2006.

10 A. As of December 31, 2006, Oncor's transmission facilities (facilities
11 operated at or above 60 kV) included more than 14,360 circuit miles of
12 345 kV, 138 kV, and 69 kV transmission lines and supporting structures,
13 971 substations and switching stations, 182 autotransformers, 1,543
14 power transformers, and 6,014 circuit breakers. Oncor's distribution
15 system (facilities operated at less than 60 kV) consisted of approximately
16 101,700 miles of primary and secondary distribution lines (including
17 approximately 78,000 miles of above-ground lines and 23,700 miles of
18 underground lines), and over 3000 distribution feeders, 42,850 primary
19 switches, 281,500 sets of fuses, 1,919,500 poles, and 889,300
20 distribution transformers.

21 Q. PLEASE DESCRIBE THE FUNCTION AND SCOPE OF THE SERVICES
22 PROVIDED BY ONCOR.

23 A. Oncor provides open access, comparable delivery service over Oncor's
24 T&D facilities in accordance with the Commission's Substantive Rules and
25 Oncor's Tariff for Retail Delivery Service and Tariff for Transmission
26 Service. Oncor's facilities form a vital part of the Electric Reliability
27 Council of Texas ("ERCOT") transmission network by interconnecting
28 other T&D utilities, generators, and customer loads. Additionally, Oncor

1 provides some of the facilities necessary for ERCOT loads to import
2 generation from outside of ERCOT, and for ERCOT generators to export
3 generation outside of ERCOT, through the North and East High Voltage
4 Direct Current Interconnections between ERCOT and the Southwest
5 Power Pool.

6 Q. DESCRIBE THE FACTORS THAT DETERMINE WHETHER ONCOR IS
7 SUCCESSFUL IN PROVIDING SAFE, RELIABLE, AND ECONOMIC
8 DELIVERY OF ELECTRICITY.

9 A. The primary factors that determine the success of Oncor in providing safe,
10 reliable, and economic electric delivery service in the competitive Texas
11 electric market include:

- 12 • a sound, successful, and economical operating and maintenance
13 philosophy;
- 14 • effective planning, engineering, and construction processes and
15 programs to ensure adequate plant facilities are available to
16 facilitate the energy transfer from the generator to the end use
17 customer;
- 18 • support of open, non-discriminatory access to Oncor's T&D system;
- 19 • the financial health of Oncor, including a reasonable return on
20 invested capital, so that Oncor has access to capital at a
21 reasonable cost, necessary to serve new load and support Oncor's
22 other construction activities, as required by Oncor's obligation to
23 serve its customers;
- 24 • full recovery of operations and maintenance expenses necessary to
25 maintain and upgrade existing facilities;
- 26 • a strong commitment to integrity and ethical conduct, including the
27 Commission's and Oncor's respective Codes of Conduct; and
- 28 • experienced and well-trained employees.

29 Oncor is presently successful in providing safe, reliable, and economic
30 electric delivery service because of all of these factors. None of these
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1 factors will be negatively impacted by the proposed acquisition (the
2 "Transaction") of TXU Corp. by Texas Energy Future Holdings Limited
3 Partnership ("Texas Energy Future"). Thus, Oncor will continue to provide
4 safe, reliable, and economic electric delivery service after completion of
5 the Transaction.

6 **IV. ORGANIZATION, FUNCTION, AND SCOPE OF ONCOR**

7 **A. Oncor Organization**

8 Q. PLEASE DESCRIBE THE STRUCTURE OF ONCOR'S ORGANIZATION.

9 A. Oncor is organized into four broad functions: Asset Management,
10 Customer and Community Relations, Operations, and Business
11 Management. Please refer to my Exhibit BJP-2 for a visual representation
12 of the business structure of Oncor.

13 Q. WHAT WAS THE STAFFING LEVEL FOR ONCOR AS OF APRIL 25,
14 2007?

15 A. As of April 25, 2007, there were approximately 3,647 employees in Oncor.
16 The major organizations within Oncor were Operations with approximately
17 3,223 employees, Asset Management with approximately 210 employees,
18 Customer and Community Relations with approximately 102 employees,
19 and Business Management with approximately 112 employees.

20 **B. Operations Organization**

21 Q. WHAT ACTIVITIES ARE PERFORMED BY THE OPERATIONS
22 ORGANIZATION?

23 A. The Operations organization is the largest of the Oncor organizations.
24 Operations is responsible for transmission grid management, distribution
25 system operations, T&D field engineering design, construction, operation,
26 and maintenance activities. Operations is additionally responsible for
27 managing contractor resources which work on the Oncor system.
28 Operations is comprised of the following major groups:

- 29 • Transmission Operations and Maintenance;

- 1 • Distribution Operations and Maintenance;
- 2 • T&D Field Engineering Design;
- 3 • Materials Management;
- 4 • Work Management;
- 5 • Contract resource management
- 6 • Vegetation Management
- 7 • Employee Safety and Training;
- 8 • Metering and Field Services;
- 9 • Environmental Safety and Industrial Health; and
- 10 • T&D Grid management.

11 **C. Asset Management Organization**

12 Q. WHAT ACTIVITIES ARE PERFORMED BY THE ASSET MANAGEMENT
13 ORGANIZATION?

14 A. The Asset Management organization is responsible for formulation and
15 implementation of policies regarding resource and system planning,
16 investment strategies, and performance and information management.
17 This organization is additionally responsible for strategic planning,
18 preparation of the construction budget for projects needed to serve new
19 and existing customers, the development of construction and materials
20 standards, asset utilization strategies, and technology strategy and
21 management and applications support. Asset Management is comprised
22 of the following groups:

- 23 • Asset Investment Strategy;
- 24 • Research and Development, Technology Development and
25 Management;
- 26 • Performance Management;
- 27 • Information Management;
- 28 • Engineering Specifications and Standards;

- 1 • Resource Management;
- 2 • System Planning;
- 3 • Strategic Sourcing and Procurement;
- 4 • and System Protection.

5 **D. Customer and Community Relations Organization**

6 Q. WHAT ACTIVITIES ARE PERFORMED BY THE CUSTOMER AND
7 COMMUNITY RELATIONS ORGANIZATION?

8 A. The Customer and Community Relations organization is responsible for
9 community and municipal relationships in the service areas served by
10 Oncor. This organization is responsible for managing activities associated
11 with municipal rates and franchises, REP relations, ERCOT market
12 operations, Oncor's energy efficiency program, economic development,
13 and coordinating charitable, civic, and community events. The Customer
14 and Community Relations group is currently comprised of the following
15 groups:

- 16 • Customer Relationship Management;
- 17 • Municipal Relationship Management;
- 18 • Energy Efficiency;
- 19 • Economic Development;
- 20 • Customer Services;
- 21 • Retail Electric Provider Relations; and
- 22 • Customer and Market Quality Management.

23 **E. Business Management Organization**

24 Q. WHAT ACTIVITIES ARE PERFORMED BY THE BUSINESS
25 MANAGEMENT ORGANIZATION?

26 A. The Business Management organization is comprised of support services
27 including:

- 28 • Business Strategy;

- 1 • Business Development;
- 2 • Communications;
- 3 • Governmental Affairs;
- 4 • Finance and Accounting;
- 5 • Human Resources;
- 6 • Employee Relations;
- 7 • Labor Relations;
- 8 • Internal Audit; and
- 9 • Regulatory Affairs.

10 **V. PRESENT LEVEL OF RELIABILITY AND QUALITY OF SERVICE**

11 Q. DOES ONCOR PRESENTLY PROVIDE A HIGH LEVEL OF QUALITY OF
12 SERVICE AND CONTINUITY OF SERVICE?

13 A. Yes. Oncor seeks to provide a near constant supply of electricity to end-
14 use customers. While no electric utility can provide delivery of electricity
15 without any interruptions, Oncor has an excellent record regarding
16 continuity of service and responsiveness to customer service interruptions.
17 Oncor maintains a talented workforce that is capable of addressing all
18 manner of service interruptions. When major events such as severe
19 thunderstorms, tornados, high winds, or ice storms disrupt the system,
20 Oncor responds in a quick and effective manner by following established
21 and efficient restoration procedures.

22 For example, a tornado hit a portion of the Oncor system near
23 Waco, Texas on May 6, 2006. The category F2 tornado caused
24 significant damage to our system in the area. An Alert Level II was
25 declared which activated our Southern Region Incident Command System
26 ("ICS"). Two restoration areas in Waco were established and a staging
27 area was set up at Baylor Stadium. Over 700 personnel participated in
28 the restoration process. Approximately 145 poles were replaced and 385
29 spans of primary were repaired. The number of customers without power

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1 peaked on the morning of May 6, 2006, and service was completely
2 restored by May 8, 2006, to all of those customers who were able to
3 receive service. A total 122,685 customers were affected by this event.

4 A more recent example of Oncor's commitment to service occurred
5 when large storms raced through the service area on the evening of
6 Friday, April 13, 2007. Large hail, high winds, and tornados damaged the
7 Oncor system in the Dallas/Fort Worth metroplex area. Approximately
8 36,000 outages were reported. Because of the significant preparations
9 taken before the storm by Oncor personnel, including development of a
10 crew safety plan and a resource plan, as well as the willingness of such
11 employees to work through the night, service was fully restored by the
12 evening of April 14, 2007 to all of those customers who were able to
13 receive service.

14 These are just two examples of the high quality of service provided
15 by Oncor under difficult circumstances. However, they are indicative of
16 Oncor's commitment and consistent efforts to respond to emergency
17 situations with timely and efficient restoration of service.

18 Q. IS THERE ANY STATISTICAL DATA THAT SUPPORTS YOUR
19 CONCLUSION THAT ONCOR PROVIDES HIGH QUALITY, RELIABLE
20 SERVICE?

21 A. Yes. System Average Interruption Duration Index ("SAIDI") and System
22 Average Interruption Frequency Index ("SAIFI") are well known and widely
23 used measures in the utility industry. SAIDI is the average time that a
24 customer is out of service in a year due to outages of a non-major event,
25 and SAIFI is the number of times that an average customer is out of
26 service in a year. While there may be issues comparing individual utilities
27 to each other due to differences in reporting criteria, these data are still
28 useful in providing a general picture of a utility's performance.

1 Oncor's current SAIDI performance compares favorably to industry
2 averages. My Exhibit BJP-3 sets forth Oncor's SAIDI data in comparison
3 to the industry. Oncor's SAIDI was 79.09 minutes per customer for 2006
4 and 74.96 minutes per customer at the end of February 2007, which is top
5 quartile performance among electric utilities for that period.

6 I would note that the above numbers differ slightly from those
7 reported to the Commission. The foregoing numbers are based on one
8 minute outages, which reflect the numbers reported by many utilities for
9 benchmarking purposes, while the numbers reported to the Commission
10 are based on those outages five minutes or greater and exclude
11 scheduled outages.

12 Oncor's SAIFI data also compares favorably to industry averages.
13 My Exhibit BJP-4 sets forth Oncor's SAIFI data in comparison to the
14 industry. Oncor's SAIFI was 1.17 interruptions per customer for 2006 and
15 1.11 interruptions per customer at the end of February 2007.

16 Q. ARE YOU AWARE OF ANY OTHER DATA THAT SUPPORTS YOUR
17 CONCLUSION THAT ONCOR PROVIDES HIGH QUALITY SERVICE?

18 A. Yes, information that Oncor provides to the Commission in Oncor's
19 Quarterly Performance Measures Report, pursuant to P.U.C. Subst. R.
20 25.88, and Oncor's monthly report pursuant to Subst. R. 25.483(b)(2)(c),
21 shows that Oncor provides high quality services related to customer
22 switches, new customer move-ins, reconnects, and answering customer
23 calls. Additionally, Oncor's meter reading metrics are superior to industry
24 averages.

25 Q. DOES ONCOR PRESENTLY HAVE EXPERIENCED AND WELL
26 TRAINED EMPLOYEES TO SUPPORT THE CONTINUED SAFE AND
27 RELIABLE PROVISION OF ELECTRIC SERVICE?

28 A. Yes. Oncor has a highly experienced and skilled workforce and
29 continually offers skills training to all employees, particularly those

1 employees maintaining the Oncor system. Oncor has an extensive
2 employee development and training program, and is fully committed to
3 providing a safe working environment for its employees. Employees are
4 provided safety training and actively participate in the development of
5 safety procedures and programs. Additionally, contractors are expected
6 to conform to these same safety, training, and quality standards.

7 Q. IS ONCOR PRESENTLY MAKING ADDITIONAL EFFORTS TO
8 IMPROVE ITS QUALITY OF SERVICE?

9 A. Yes. Oncor has increased capital expenditures significantly over the past
10 few years and is on track to continue capital spending to improve the
11 reliability of its T&D system. Please refer to my Exhibit BJP-5 for a
12 summary of Oncor's historical and planned capital spending. Significant
13 system improvements have been made and will continue through
14 hundreds of projects to upgrade and replace existing infrastructure as well
15 as expand the transmission grid and distribution system and
16 technologically improve its performance. An example of these additional
17 improvements is the deployment of Oncor's smart grid system which
18 includes automated metering. In conjunction with these improvements
19 Oncor is installing automated distribution switches, upgrading
20 transmission circuit breakers, switches and relays. All of these
21 improvements will help to improve the reliability of Oncor's T&D system.

22 Q. HAS ONCOR DEMONSTRATED A COMMITMENT TO CERTIFICATING
23 AND CONSTRUCTING NECESSARY TRANSMISSION
24 INFRASTRUCTURE?

25 A. Yes. For example, since 1999, Oncor has applied for, received
26 Commission approval, and constructed over 20 transmission projects,
27 including approximately 300 miles of 345 kV transmission lines.

28 Q. HOW MUCH HAS ONCOR INVESTED IN TRANSMISSION FACILITIES
29 SINCE 1999?

1 A. Between September 30, 1999 and December 31, 2006, Oncor invested
2 over \$1.5 billion in new transmission facilities. Obviously, this is a
3 significant amount of transmission development and is indicative of the
4 historical commitment of Oncor to the development and maintenance of
5 an efficient and reliable transmission grid.

6 **VI. POST TRANSACTION RELIABILITY AND QUALITY OF SERVICE**

7 Q. ARE YOU FAMILIAR WITH THE TRANSACTION?

8 A. Yes. The Transaction is described in more detail in the testimony of Mr.
9 Frederick M. Goltz.

10 Q. WILL ONCOR CONTINUE TO PROVIDE HIGH QUALITY, RELIABLE
11 SERVICE AFTER COMPLETION OF THE TRANSACTION?

12 A. Yes. As more fully described in Mr. Goltz's testimony, Oncor is expected
13 to continue its present capital investment plans. Those plans call for
14 significant investment in T&D infrastructure, including further investment in
15 Oncor's smart grid system which includes automated metering and BPL,
16 to modernize the Oncor grid and improve service reliability. Further,
17 Oncor expects to continue its planned operations and maintenance
18 spending, and has pledged not to reduce the level of employees dedicated
19 to maintaining and operating Oncor's system. Accordingly, Oncor's
20 operations will not be negatively impacted in any way as a result of the
21 Transaction, and Oncor will continue to provide reliable, high quality
22 service and will continue to strive to increase reliability and quality of
23 service.

24 Q. WILL THERE BE ANY REDUCTIONS IN THE NUMBER OF ONCOR
25 EMPLOYEES AS A RESULT OF THE TRANSACTION?

26 A. No. There will not be a reduction of Oncor employees as a result of the
27 Transaction. Oncor will continue to have a highly experienced and skilled
28 workforce and will continue to have an extensive employee development

1 and training program. Thus, the Transaction will not have any negative
2 impact on either the number or quality of Oncor employees.

3 Q. WOULD YOU PLEASE BRIEFLY COMMENT ON THE PROPOSED
4 INFRASTRUX TRANSACTION THAT WAS ANNOUNCED IN JUNE OF
5 2006?

6 A. Yes. The proposed transaction between Oncor and InfrastruX Energy
7 Group has been suspended and will be terminated upon the closing of the
8 Transaction. Therefore, there was and will be no question that Oncor
9 complies with the requirements of PURA 38.005(c) to maintain adequately
10 trained and experienced personnel throughout the utility's service area.

11 Q. WILL THERE BE ANY REDUCTION OR DEFERRAL OF PREVIOUSLY
12 PLANNED CAPITAL EXPENSES AS A RESULT OF THE
13 TRANSACTION?

14 A. No. There will not be a reduction or deferral of any Oncor capital
15 expenditures that had been planned prior to the Transaction.

16 Q. WILL THE TRANSACTION RESULT IN ANY REDUCTIONS TO
17 ONCOR'S CAPITAL SPEND OR MAINTENANCE SPEND?

18 A. No. There are no planned reductions to Oncor's capital spending or
19 maintenance spending as a result of the Transaction. To the contrary,
20 Oncor is committed to capital spending of more than \$3.0 billion over the
21 coming five years.

22 Q. WILL ANY COST-CUTTING MEASURES RESULT FROM THE
23 TRANSACTION THAT COULD ADVERSELY IMPACT THE RELIABILITY,
24 INSTALLATION, OR MAINTENANCE OF THE ONCOR FACILITIES?

25 A. No. The Transaction will not result in any cost-cutting, or other measures,
26 that potentially could adversely impact the reliability, installation, or
27 maintenance of Oncor's facilities.

28 Q. WILL ONCOR CONTINUE TO CONSTRUCT NECESSARY
29 TRANSMISSION INFRASTRUCTURE AFTER THE TRANSACTION?

1 A. Yes. A further demonstration of Oncor's continuing commitment to the
2 development of necessary transmission infrastructure is its involvement in
3 Commission Docket No. 33672. Therein, Oncor has proposed a plan that
4 provides for a significant expansion of the current ERCOT transmission
5 grid in order to integrate a large amount of renewable generation into
6 ERCOT. Oncor is specifically seeking to become one of the transmission
7 providers that will certificate and construct the facilities identified in Docket
8 No. 33672.

9 Q. WILL ONCOR CONTINUE TO OWN 100% OF ITS ELECTRIC T&D
10 FACILITIES AND RELATED ASSETS AFTER THE TRANSACTION?

11 A. Yes. There will be no change in Oncor's ownership of its electric T&D
12 system and related assets as a result of the Transaction.

13 Q. AFTER THE TRANSACTION, WILL ONCOR CONTINUE THE
14 PREVIOUSLY IDENTIFIED ADDITIONAL EFFORTS TO IMPROVE ITS
15 QUALITY OF SERVICE?

16 A. Yes. The additional efforts I previously described, including the
17 deployment of Oncor's smart grid system which includes automated
18 metering, as well as the use of automated switches on the T&D system,
19 will continue after the Transaction is complete.

20 Q. AT THE BEGINNING OF YOUR TESTIMONY, YOU DESCRIBED THE
21 FACTORS THAT DETERMINE WHETHER ONCOR IS SUCCESSFUL IN
22 PROVIDING SAFE, RELIABLE, AND ECONOMIC DELIVERY OF
23 ELECTRICITY. WILL THE TRANSACTION HAVE ANY NEGATIVE
24 IMPACT ON THE FACTORS YOU IDENTIFIED IN RESPONSE TO THE
25 QUESTION?

26 A. No. The Transaction will not negatively impact any of the factors I
27 identified and, thus, will have no negative impact on Oncor's ability to
28 provide safe, reliable, and economic electric delivery service.

1 Q. ARE THERE ANY OTHER REASONS WHY YOU BELIEVE THAT
2 SERVICE QUALITY AND RELIABILITY WILL NOT DECREASE AS A
3 RESULT OF THE TRANSACTION?

4 A. Yes. As I previously testified, I have been employed by Oncor, or its
5 corporate predecessors, for 26 years. Accordingly, I can state
6 unequivocally that Oncor is staffed by high-quality, professional
7 employees who are dedicated to ensuring that Oncor provides the highest
8 level of reliable and high quality service possible. As a result of my years
9 of experience, I have served with many of these employees over many
10 years and know them to be extremely qualified and dedicated. In addition
11 to the fact that the Transaction will not result in a decrease of staff,
12 funding, capital expenditures, or result in a change in ownership of
13 facilities, the Transaction will in no way diminish the professionalism of
14 Oncor's work force who will continue to strive to provide high quality, safe
15 and reliable service.

16 **VII. CONCLUSION**

17 Q. PLEASE SUMMARIZE YOUR TESTIMONY.

18 A. Oncor currently provides a high level of reliability and quality of service for
19 all of the reasons I previously described. The Transaction will not
20 negatively impact any factor that allows Oncor to provide high quality
21 reliable service in any way. Furthermore, both now and after the
22 Transaction, Oncor will continue to strive to provide more reliable and
23 higher quality service.

24 Q. DOES THIS CONCLUDE YOUR TESTIMONY?

25 A. Yes, it does.

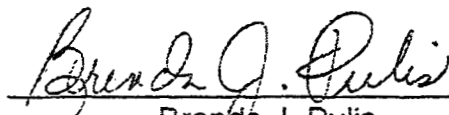
STATE OF TEXAS

COUNTY OF DALLAS

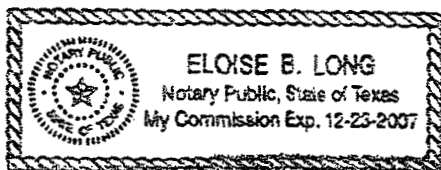
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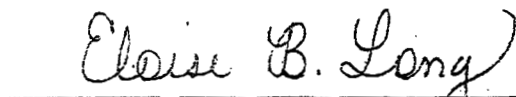
BEFORE ME, the undersigned authority, on this day personally appeared Brenda J. Pulis, who, having been placed under oath by me, did depose as follows:

My name is Brenda J. Pulis. I am of legal age and a resident of the State of Texas. The foregoing testimony and the attached exhibits offered by me are true and correct, and the opinions stated therein are accurate, true and correct.


Brenda J. Pulis

SUBSCRIBED AND SWORN TO BEFORE ME by the said Brenda J. Pulis this 24th day of April, 2007.

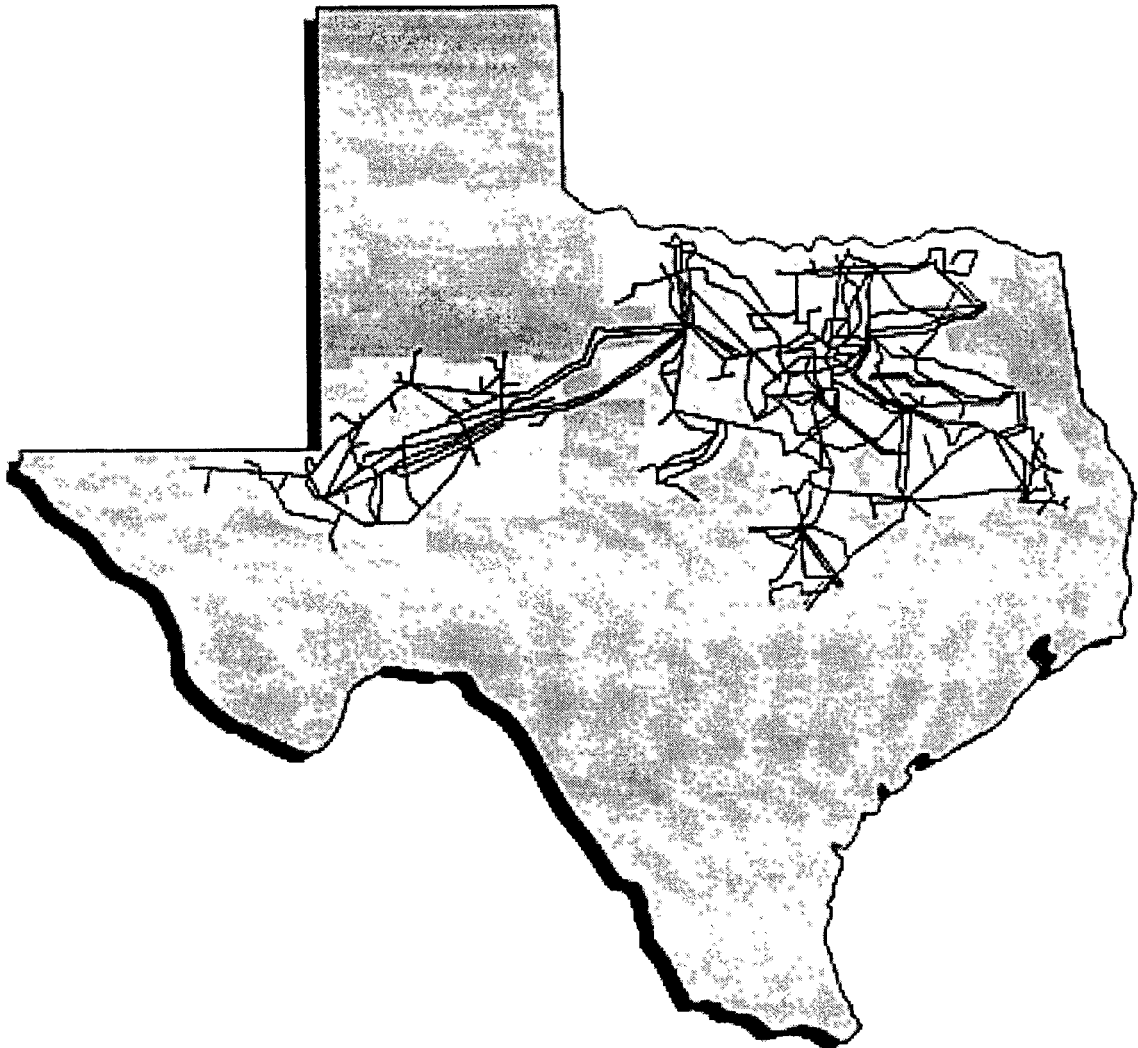


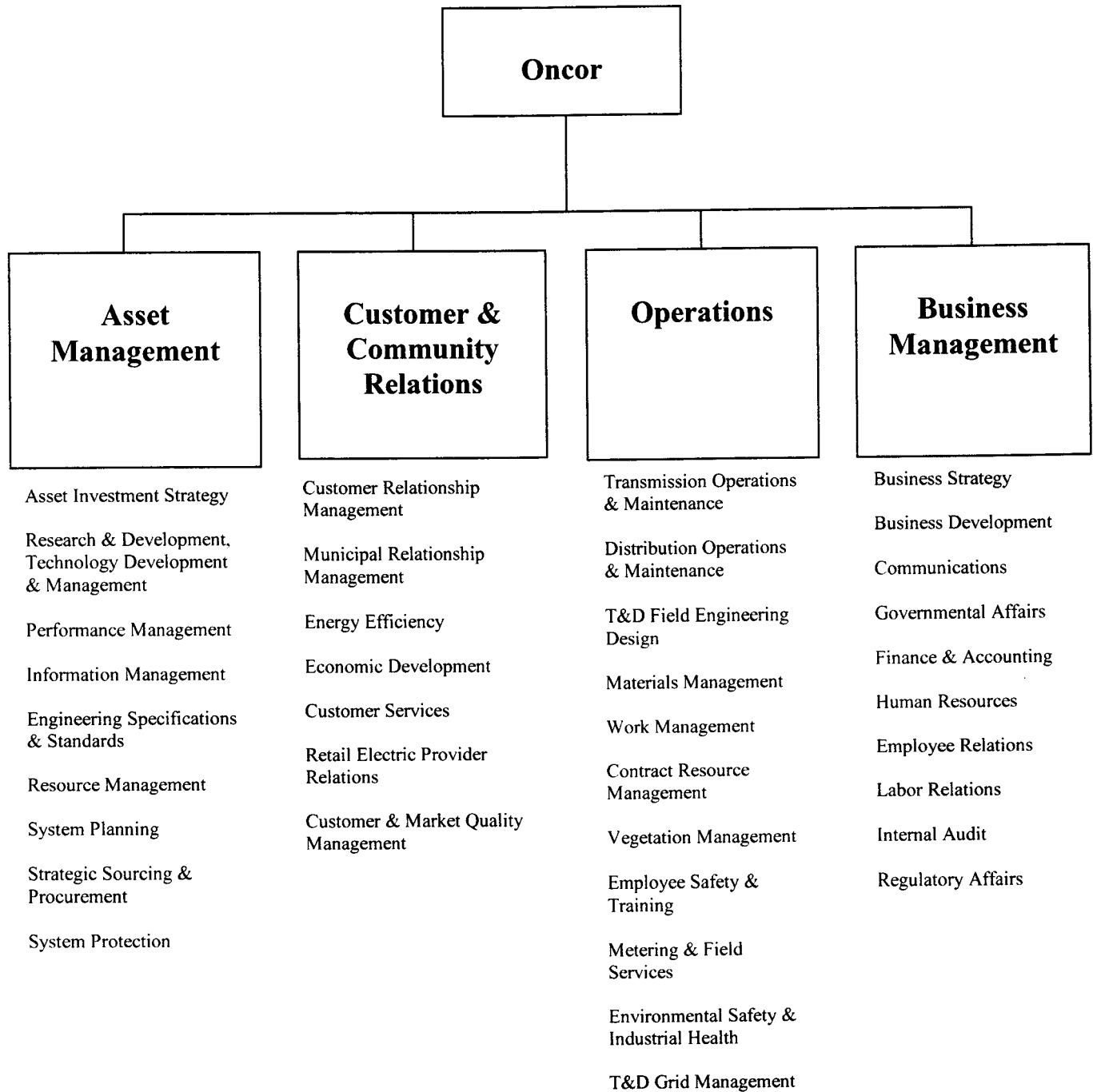

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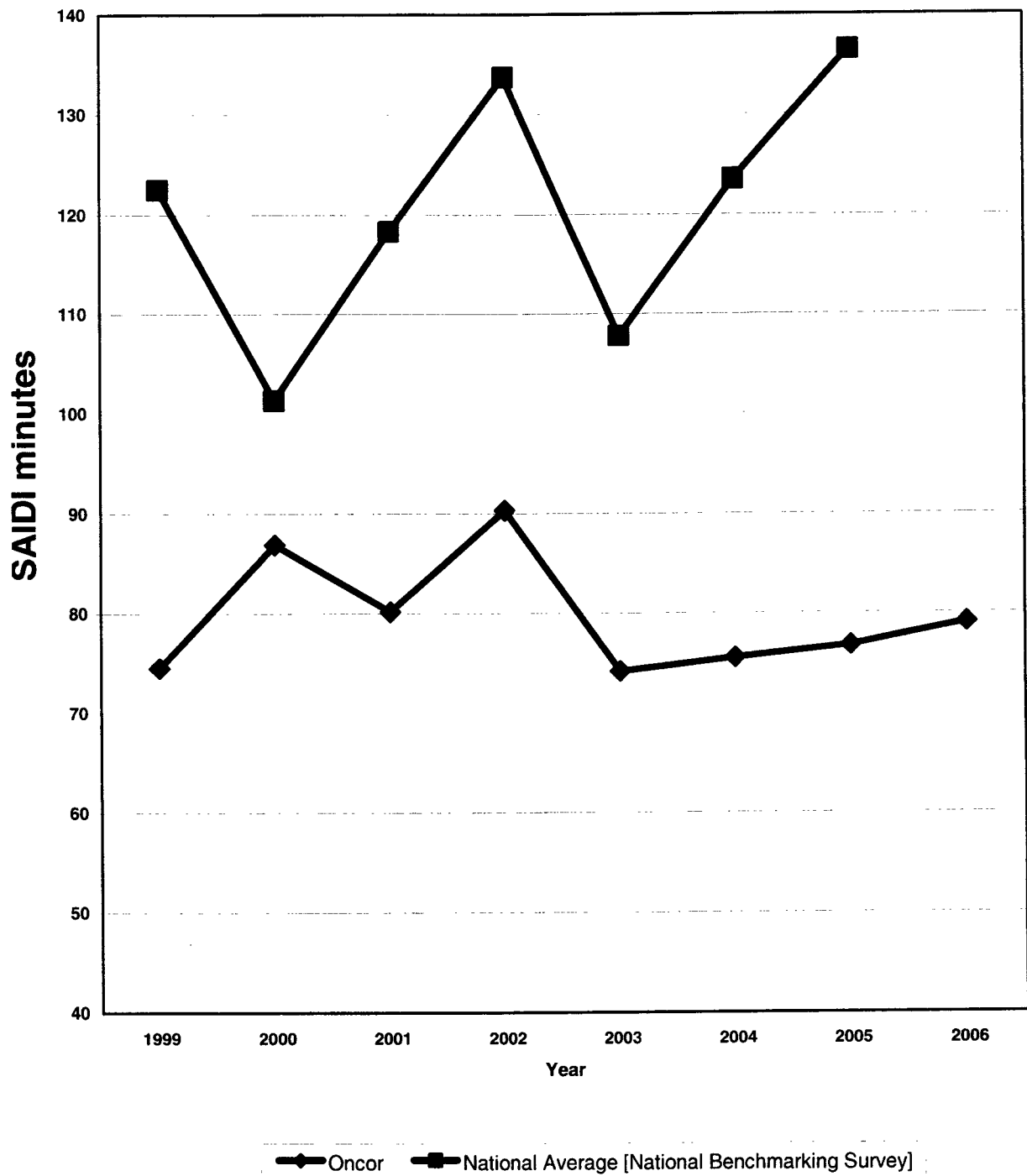
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Oncor
Service Territory
with major transmission lines



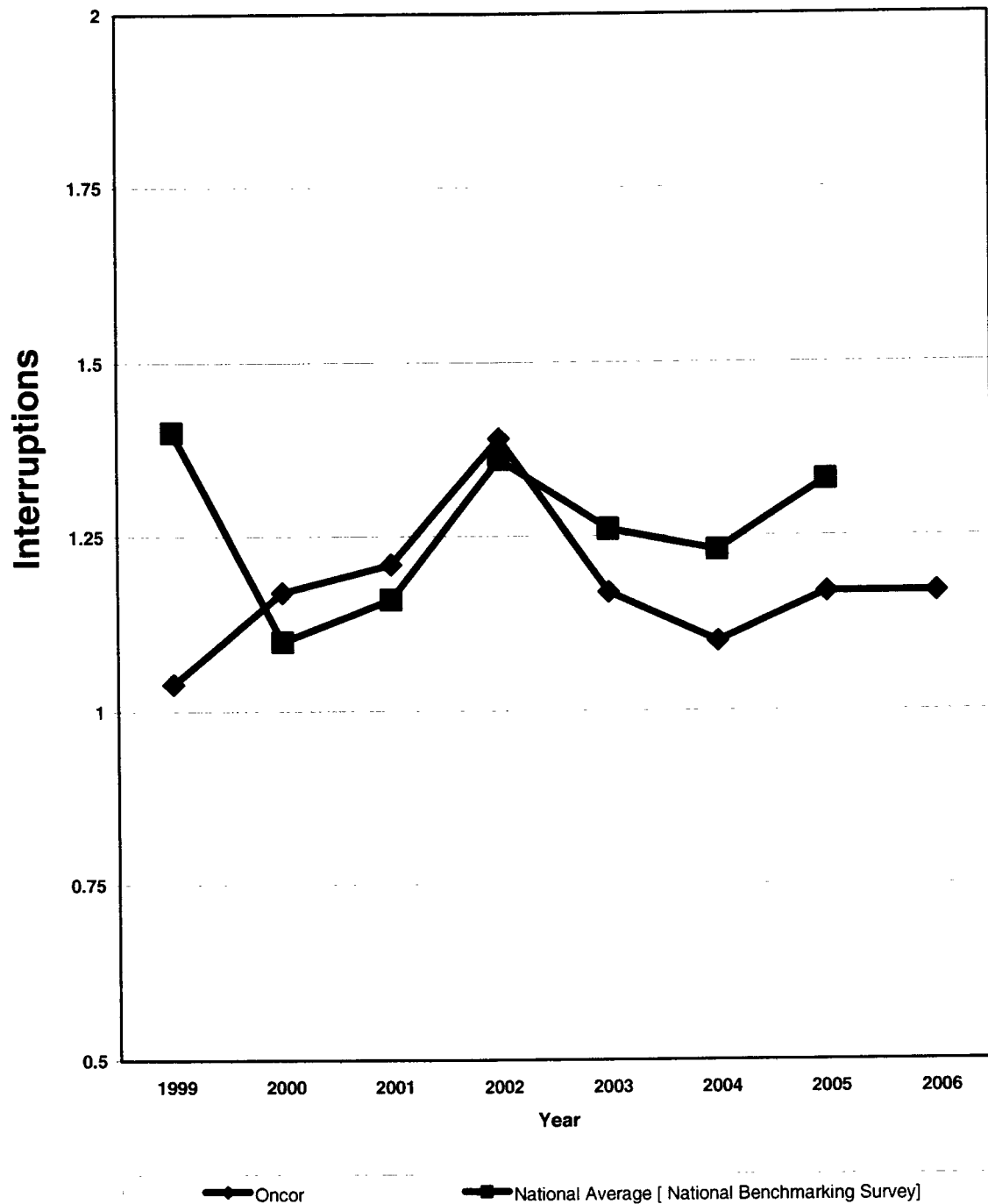


Oncor SAIDI

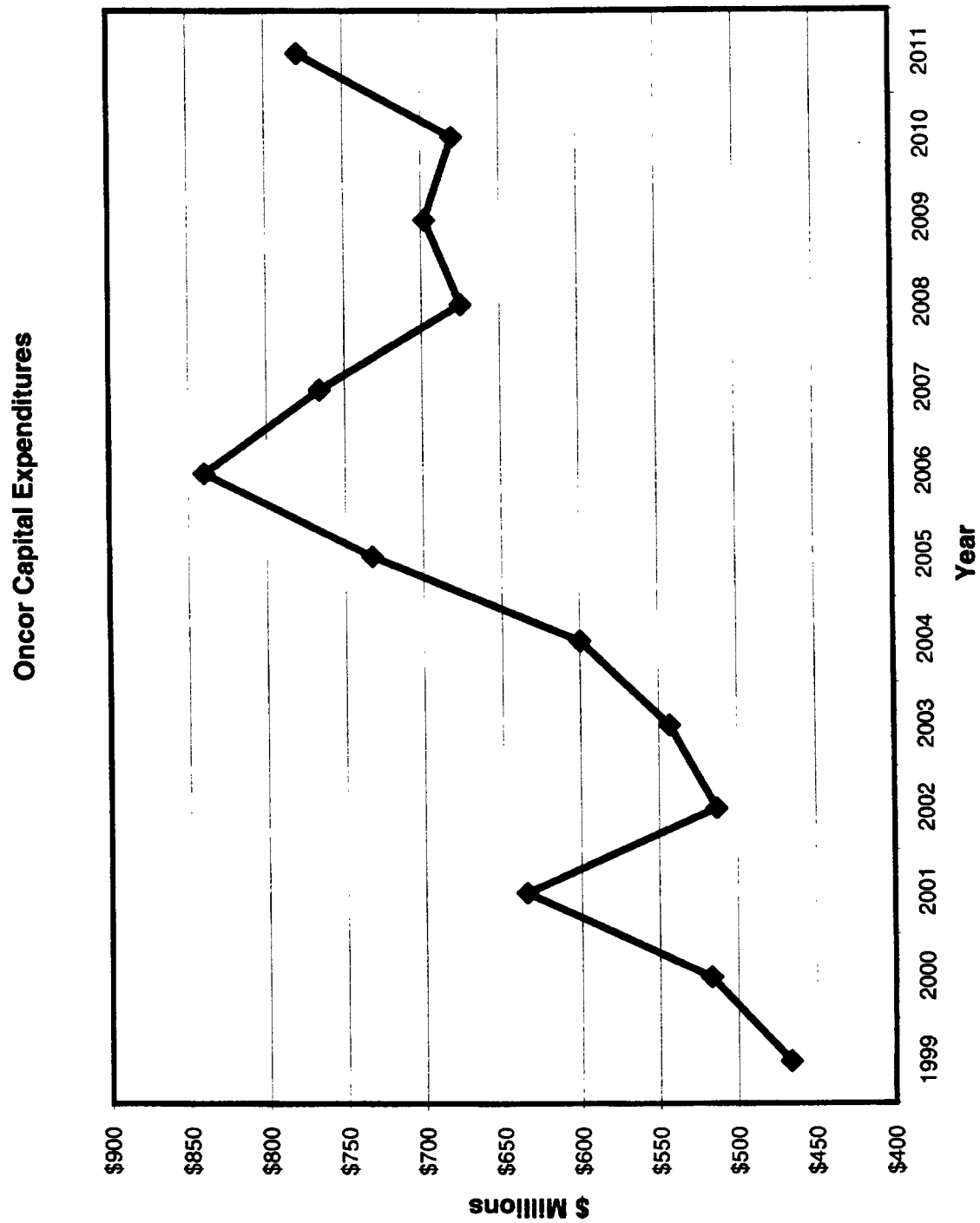


* 2006 National Average Data will be available 4th Quarter 2007

Oncor
SAIFI



* 2006 National Average Data will be available 4th Quarter 2007



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1 segments of the financial community, including investment and
2 commercial bankers, credit rating agencies, and investors. I am
3 responsible for Oncor's cash management operations and financial
4 compliance activities. I am also responsible for TXU Corp.'s external trust
5 fund investments that include pension, 401K, nuclear decommissioning
6 and various other pools of assets.

7 Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY IN THIS
8 PROCEEDING?

9 A. I am testifying concerning the financial aspects of the transaction (the
10 "Transaction") arising from the Agreement and Plan of Merger, dated
11 February 25, 2007, among TXU Corp., Texas Energy Future Holdings
12 Limited Partnership ("TEF"), and Texas Energy Future Merger Sub Corp
13 (the "Merger Agreement"). I will also explain why the Transaction will
14 have no impact on Oncor's rates, particularly in the areas of capital
15 structure, financial integrity, and costs associated with the Transaction.

16 **II. OVERVIEW OF THE TRANSACTION**

17 Q. ARE YOU FAMILIAR WITH THE TRANSACTION?

18 A. Yes, I am. The Transaction is more fully described in the testimony of Mr.
19 Frederick M. Goltz.

20 Q. WILL ONCOR INCUR, GUARANTEE, OR PLEDGE ANY OF ITS
21 ASSETS IN SUPPORT OF INCREMENTAL NEW DEBT RELATED TO
22 FINANCING THE TRANSACTION?

23 A. No. As detailed in the Binding Commitments letter dated as of April 2,
24 2007 from TEF and presented to the Public Utility Commission of Texas in
25 this Docket No. 34077 (the "Binding Commitments Letter"), and as
26 reaffirmed in the testimony of Mr. Goltz, Oncor will not incur, guarantee or
27 pledge assets in respect of any incremental new debt related to financing
28 the Transaction at the closing or thereafter. Additionally, as discussed in
29 Mr. Goltz's testimony, Oncor's debt will be limited so that its regulatory
30 debt to equity ratio is at or below the debt to equity ratio set by the

1 Commission from time to time for ratemaking purposes, which is currently
2 set at 60% debt to 40% equity.

3 **III. FINANCIAL IMPACT OF THE TRANSACTION ON ONCOR**

4 Q. PLEASE BRIEFLY DESCRIBE THE CURRENT CAPITAL STRUCTURE
5 OF ONCOR.

6 A. The regulatory capital structure of Oncor at the end of 2006 was 50% debt
7 and 50% equity. In March 2007, Oncor issued \$800 million of floating rate
8 notes to fund ordinary capital and operating expenses. When adjusted for
9 this recent issuance, the capital structure results in 56% debt and 44%
10 equity. These figures represent the capital structure as calculated using
11 the methodology in the Earnings Monitoring Report that Oncor files
12 annually as required by the Commission. As mentioned above, Oncor will
13 not incur any new debt to finance the Transaction. As further described in
14 Mr. Goltz's testimony, some new debt may be issued by Oncor to support
15 its need for funds for ongoing construction, operations and other general
16 corporate purposes. However, as detailed in the Debt-to-Equity
17 Commitment, Oncor's debt will be limited so that its regulatory debt to
18 equity ratio is at or below the assumed debt to equity ratio established
19 from time to time by the Commission for ratemaking purposes, which is
20 currently set at 60/40.

21 Q. WILL ANY OF THE DEBT BEING USED TO FINANCE THE
22 TRANSACTION BE "PUSHED DOWN" TO ONCOR OR IN ANY
23 MANNER REFLECTED IN ONCOR'S CAPITAL STRUCTURE?

24 A. No. Oncor will not incur or reflect on its books any new debt related to
25 financing the Transaction.

26 Q. MR. HAYS IN HIS TESTIMONY STATES THAT THE GOODWILL
27 RESULTING FROM THE TRANSACTION WILL BE REFLECTED ON
28 ONCOR'S BOOKS BUT WILL NOT BE REFLECTED IN RATES. WILL
29 THE EXISTENCE OF THIS GOODWILL AFFECT ONCOR'S CREDIT
30 RATING?

1 A. No. While overall it is positive to the book capitalization of Oncor, the
2 rating agencies tend to focus more on cash-related metrics such as cash
3 flow interest coverage and cash flow to debt. Therefore, there should be
4 no adverse effect on Oncor's credit rating.

5 Q. WILL THERE BE MECHANISMS IN PLACE TO PROTECT ONCOR'S
6 FINANCIAL INTEGRITY?

7 A. Yes, there will be. Certain ring-fencing commitments regarding Oncor
8 have been made and are detailed in the testimony of Mr. Goltz and in the
9 Binding Commitments Letter. These ring-fencing commitments are
10 intended to protect Oncor's financial integrity and credit from financial risks
11 relating to TXU Corp. and its other subsidiaries, namely Luminant Energy
12 and TXU Energy Retail.

13 Q. IF ONCOR'S CREDIT RATING IS REDUCED AS A RESULT OF THE
14 TRANSACTION, HOW WILL CUSTOMERS BE PROTECTED FROM
15 HIGHER DEBT COSTS?

16 A. Mr. Goltz's testimony discusses how customers will be protected in the
17 2007 and 2008 rate cases in the event the Transaction causes a reduction
18 in Oncor's credit rating.

19 Q. WILL THE TRANSACTION HAVE AN ADVERSE EFFECT ON THE
20 FINANCIAL ABILITY OF ONCOR TO CONTINUE TO PROVIDE
21 RELIABLE SERVICE TO ITS CUSTOMERS?

22 A. No. The ring-fencing provisions are intended to protect Oncor's financial
23 condition from risks relating to TXU Corp.'s other businesses. In addition,
24 the regulated nature of Oncor's business and the existing market, legal
25 and regulatory framework in which Oncor operates should help Oncor
26 maintain its access to the capital markets to provide the necessary funding
27 for its ongoing business activities.

28 **IV. CONCLUSION**

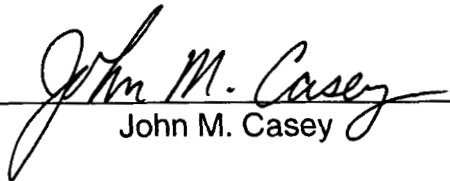
29 Q. WOULD YOU PLEASE SUMMARIZE YOUR TESTIMONY?

- 1 A. The Transaction is not expected to have any negative financial impact on
2 Oncor. The ring-fencing commitments contained in the Binding
3 Commitments Letter and the testimony of Mr. Frederick M. Goltz are
4 designed to protect the financial integrity of Oncor from risks relating to
5 TXU Corp.'s other businesses, and Oncor will not incur any new debt
6 related to financing the Transaction. The amount of Oncor's debt will be
7 limited so as not to exceed the assumed regulatory debt/equity ratio
8 established from time to time by the Commission for ratemaking purposes,
9 which is currently set at 60/40.
- 10 Q. DOES THIS CONCLUDE YOUR DIRECT TESTIMONY?
- 11 A. Yes it does.

STATE OF TEXAS §
 §
COUNTY OF DALLAS §

BEFORE ME, the undersigned authority, on this day personally appeared John M. Casey, who, having been placed under oath by me, did depose as follows:

My name is John M. Casey. I am of legal age and a resident of the State of Texas. The foregoing direct testimony offered by me is true and correct, and the opinions stated therein are accurate, true and correct.


John M. Casey

SUBSCRIBED AND SWORN TO BEFORE ME by the said John M. Casey this 23rd day of April, 2007.


Notary Public, State of Texas



PUC Docket No. 34077

Casey – Direct
Oncor
\$14.101 Filing

PUC DOCKET NO. 34077
INDEX TO THE DIRECT TESTIMONY
OF RICHARD C. HAYS, WITNESS FOR
ONCOR ELECTRIC DELIVERY COMPANY

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1 **DIRECT TESTIMONY OF RICHARD C. HAYS**

2 **I. POSITION AND QUALIFICATIONS**

3 Q. PLEASE STATE YOUR NAME AND ADDRESS.

4 A. My name is Richard C. Hays. My business address is 1601 Bryan Street,
5 Dallas, Texas 75201.

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

7 A. I am the Controller for Oncor Electric Delivery Company ("Oncor"), the
8 regulated distribution and transmission subsidiary of TXU Corp.

9 Q. WHAT ARE YOUR RESPONSIBILITIES AS CONTROLLER FOR
10 ONCOR?

11 A. I am responsible for the accounting functions of Oncor, including ensuring
12 that Oncor transactions and events are recorded properly in accordance
13 with generally accepted accounting principles, accounting policies and
14 practices adopted by TXU Corp. and Oncor, and Federal Energy
15 Regulatory Commission ("FERC") guidelines, as well as ensuring that the
16 financial information in Oncor's regulatory filings is accurate and
17 appropriate.

18 Q. PLEASE DESCRIBE YOUR EDUCATIONAL BACKGROUND AND
19 BUSINESS EXPERIENCE.

20 A. I received a BBA degree, with a concentration in accounting, from Baylor
21 University in 1975. I also received an MBA degree from Baylor University
22 in 1976. I became a Certified Public Accountant in Texas in May 1977.

23 Upon graduation from college, I was employed by the Dallas, Texas
24 office of Peat, Marwick, Mitchell & Co. ("Peat Marwick"), a national public
25 accounting firm. During the eight years I was employed at Peat Marwick, I
26 supervised audits of numerous companies in the energy industry,
27 including public utilities. I supervised independent accounting reviews of
28 various financial statements and schedules filed in support of rate cases
29 before the New Mexico Public Service Commission and FERC.

1 I left Peat Marwick in September 1984 to accept a position with
2 Southwestern Electric Service Company ("SESCO"), an electric utility
3 located in East Texas which was acquired by TXU Corp. in 1993. In April
4 1988, I was elected Vice President-Financial of SESCO. In September
5 1997, I became the Transmission Business Support Manager managing
6 financial and accounting issues for TXU Corp.'s Transmission Business
7 Unit. I accepted my current position as Controller of Oncor in June 2004.

8 Q. HAVE YOU TESTIFIED BEFORE THE PUBLIC UTILITY COMMISSION
9 OF TEXAS ("COMMISSION") PREVIOUSLY?

10 A. Yes, I have previously testified in Docket Nos. 6610, 9040, 9750, 12185,
11 14045 and 22350, as well as six tax adjustment factor dockets which
12 arose from House Bill 11, 72nd Texas Legislature.

13
14 **II. PURPOSE OF DIRECT TESTIMONY**

15 Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?

16 A. The purpose of my direct testimony is to describe the accounting impacts
17 on Oncor arising from Texas Energy Future Holdings Limited
18 Partnership's (TEF) acquisition of TXU Corp. (the "Transaction"), and why
19 that accounting treatment will not impact Oncor's regulated rates. My
20 testimony also serves as the response to questions 23, 24, 26 and 31 in
21 the Application for Sale, Transfer or Merger filed in this proceeding.

22 My testimony is divided into three main sections. In Section III, I
23 describe how the Transaction would be recorded by Oncor. Section IV
24 describes the tax consequences of the Transaction. Section V confirms
25 that the proposed accounting would not impact Oncor's rates.

26
27 **III. ACCOUNTING FOR THE TRANSACTION**

28 Q. HOW WILL THIS TRANSACTION BE RECORDED IN THE BOOKS AND
29 RECORDS OF ONCOR?

1 A. Oncor will follow generally accepted accounting principles in recording the
2 impacts of the Transaction. The Transaction falls under the scope of
3 paragraph 10(b) of the Statement of Financial Accounting Standards
4 ("SFAS") No. 141, Business Combinations, which provides that all
5 acquisitions be accounted for under the "purchase method." The
6 "purchase method" requires determining the cost of an acquired entity and
7 allocating that cost to the assets acquired and liabilities assumed. The
8 cost of the acquired entity is determined by combining the \$69.25 per
9 share price expected to be paid for the outstanding equity of the entity,
10 plus any direct transaction costs associated with the Transaction.
11 Paragraph 35 of SFAS No. 141 further requires that the acquisition cost
12 be allocated to the assets and liabilities acquired based on their estimated
13 fair value at acquisition date. Accordingly, some of the acquisition cost
14 would be assigned to Oncor in the form of goodwill. Goodwill represents
15 the excess amount of the acquisition cost over the fair value of the net
16 assets acquired in an acquisition.

17 Q. WHAT IS THE FAIR VALUE OF ONCOR'S REGULATED ASSETS AND
18 LIABILITIES?

19 A. The individual fair value of the regulated assets and liabilities are and
20 would remain the book values recognized in the rate-making process
21 according to the Commission's approved accounting policies and
22 precedents. The change in ownership of TXU Corp. would not impact
23 those individual values. The excess of the assigned acquisition cost that
24 is greater than the recorded amounts of the regulated assets and liabilities
25 would be recognized as goodwill on an enterprise level in a separate
26 goodwill account.

27 Q. WOULD THE NEW COST BASIS BE REFLECTED ON ONCOR'S
28 BOOKS OR ON TXU CORP.'S BOOKS?

29 A. Since Oncor is a separate registrant under Securities and Exchange
30 Commission ("SEC") regulation, reporting rules (SEC's Codification of

1 Staff Accounting Bulletin Topic 5J, Miscellaneous Accounting) require that
2 the new cost basis for Oncor be "pushed down" to Oncor's books and
3 records. This means that the portion of allocated acquisition cost
4 associated with Oncor would be recorded on Oncor's books.

5 Q. WHAT AMOUNTS WOULD BE ENTERED INTO ONCOR'S ACCOUNTS
6 UNDER "PUSH DOWN" ACCOUNTING?

7 A. The actual amount of any goodwill would be determined by the new
8 owners at closing based on the approximation of fair value associated with
9 assets and liabilities at that point in time. A preliminary estimate of
10 Oncor's allocation of goodwill and offsetting equity is approximately \$4
11 billion. See Exhibit RCH-1 for an Oncor pro forma balance sheet as of
12 December 31, 2006, which reflects the above estimate. The balance
13 sheet excludes Oncor Electric Delivery Transition Bond Company LLC
14 (formerly named TXU Electric Delivery Transition Bond Company LLC)
15 and amounts related to securitization as those amounts are also excluded
16 from rate proceedings. Oncor would not be expected to be allocated any
17 other assets or liabilities under "push down" accounting as a result of the
18 Transaction.

19
20 **IV. TAX CONSEQUENCES OF THE TRANSACTION**

21 Q. WHAT ARE THE TAX CONSEQUENCES TO ONCOR FROM THE
22 TRANSACTION?

23 A. The change in ownership of TXU Corp. is being accomplished by stock
24 acquisition of TXU Corp., the indirect parent of Oncor; therefore, there are
25 no tax implications for Oncor. Oncor will continue to calculate income
26 taxes on a stand-alone basis for financial reporting purposes. It is
27 anticipated that the filing of federal income tax and Texas margin tax
28 returns will be done by TXU Corp. on a consolidated basis. The
29 Transaction will have no impact on the Commission's authority to
30 determine federal income tax expense for rate-making purposes.

1
2 **V. ONCOR'S RATES WILL NOT BE IMPACTED BY THE**
3 **TRANSACTION**

4 Q. HAVE THERE BEEN SIMILAR OWNERSHIP CHANGES OF TEXAS
5 ELECTRIC UTILITIES ACCOUNTED FOR AS PURCHASES?

6 A. Yes. The purchases of SESCO by TXU Corp., Texas-New Mexico Power
7 by a private equity group, and subsequently Texas-New Mexico Power
8 Company ("TNP") by PNM Resources, were accounted for using the
9 purchase price allocation method. Goodwill (purchase price greater than
10 fair value) was recognized in all three of those acquisitions.

11 Q. DID THE GOODWILL AMOUNTS AFFECT THE REGULATED
12 REVENUES IN ANY OF THOSE SITUATIONS?

13 A. No, it did not. SESCO's PURA Section 14.101 filing acknowledged that
14 Commission approval would have to be obtained before any goodwill
15 could be recovered in rates. SESCO has never asked for such
16 permission. The \$25 million in goodwill is still maintained as a non-utility
17 asset. The final order in TNP's PURA Section 14.101 filing (Docket No.
18 30172), Finding of Fact No. 40, documents TNP's agreement not to seek
19 recovery through Texas retail delivery base rates for goodwill or intangible
20 assets resulting from the application of "push down" accounting for the
21 effects of the purchase transaction. A similar agreement was recorded in
22 Finding of Fact No. 24f in the earlier TNP purchase (Docket No. 21112).

23 Q. IS ONCOR COMMITTED TO FOLLOW THESE PRECEDENTS AND NOT
24 ASK FOR RECOVERY OF ANY COSTS OR GOODWILL ASSOCIATED
25 WITH THE CHANGE IN OWNERSHIP?

26 A. Yes, Oncor is committed not to include or in any way impact Oncor's
27 future rate requests with the goodwill, intangible assets or transaction
28 costs that arise from the Transaction. Further, Oncor commits that the
29 goodwill assets will not be included in rate base nor amortized into cost of
30 service in Oncor's future filings with the Commission.

1 Q. ARE THERE ANY TRANSACTION COSTS THAT WILL BE INCLUDED
2 IN FUTURE RATE CASES?

3 A. No. Transaction costs have been incurred by both TEF and TXU Corp.,
4 but none of these transaction costs will be included in future rate cases.
5 Any Transaction costs incurred by TEF will be included in the calculation
6 of goodwill and in turn the portion of that goodwill that will be "pushed
7 down" to Oncor. Since the goodwill amount is to be permanently excluded
8 from ratemaking, any Transaction costs included in that amount would
9 therefore also be excluded for ratemaking purposes. With respect to
10 Transaction-related costs incurred by TXU Corp., those costs will not be
11 assigned or pushed down to Oncor.

12 Further, Oncor is not expected to directly incur any Transaction-
13 related costs as no Transaction-related debt is to be issued by Oncor. If
14 any miscellaneous Transaction-related costs do occur at Oncor, then all
15 such amounts would be excluded from all regulatory filings, including rate
16 case proceedings.

17
18 **VI. CONCLUSION**

19 Q. WOULD YOU PLEASE SUMMARIZE YOUR TESTIMONY?

20 A. All of the accounting impacts from the Transaction will be excluded from
21 future rate proceedings, earnings monitoring reports, and any other
22 Commission reports. Oncor will not request recovery of or on any
23 transaction-related costs in future rate proceedings.

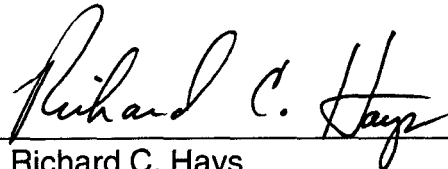
24 Q. DOES THIS CONCLUDE YOUR DIRECT TESTIMONY?

25 A. Yes, it does.

STATE OF TEXAS §
 §
COUNTY OF DALLAS §

BEFORE ME, the undersigned authority, on this day personally appeared Richard C. Hays, who, having been placed under oath by me, did depose as follows:

My name is Richard C. Hays. I am of legal age and a resident of the State of Texas. The foregoing direct testimony and the attached exhibits offered by me are true and correct, and the opinions stated therein are accurate, true and correct.


Richard C. Hays

SUBSCRIBED AND SWORN TO BEFORE ME by the said Richard C. Hays this 23rd day of April, 2007.


Notary Public, State of Texas



UNAUDITED UNCONSOLIDATED FERC PRO FORMA BALANCE SHEET

ONCOR ELECTRIC DELIVERY
Unaudited Unconsolidated FERC Pro Forma Balance Sheet
As of December 31, 2006
(\$ in thousands)

	Oncor Electric Delivery Pre- acquisition	Pro Forma Adjustments	Oncor Electric Delivery Post- acquisition
Net Plant	7,608,071		7,608,071
Goodwill/Other Intangibles	25,247	4,017,527 a	4,042,774
Investment	72,151		72,151
Other Assets (nonutility property)	3,663		3,663
Current Assets	396,013		396,013
Deferred Charges	1,693,547		1,693,547
Total Assets	9,798,692	4,017,527	13,816,219
Long-Term Debt	2,852,670		2,852,670
Preferred Stock	-		-
Deferred Credits	2,695,418		2,695,418
Current Liabilities	1,255,375	-	1,255,375
Noncurrent Liabilities	19,910		19,910
Total Liabilities	6,823,373	-	6,823,373
Common Stock	2		2
Paid in Capital	1,986,369	5,006,475 a,b	6,992,844
Accumulated OCI	(19,369)	19,369 b	-
Retained Earnings	1,008,317	(1,008,317) b	-
Total Equity	2,975,319	4,017,527	6,992,846
Total Liabilities and Equity	9,798,692	4,017,527	13,816,219

<Notes>

- 1) This schedule presents the pro forma purchase adjustments required by Texas Energy Future acquisition of TXU Corp.
- 2) Does not include consolidation of Oncor Electric Delivery Transition Bond Company LLC, a special purpose bankruptcy remote entity, used in securitization of stranded regulatory assets and has not been included in Oncor Electric Delivery's historical FERC filings.
- 3) Actual amounts will vary from pro forma amounts presented after completion of a third party valuation of the Oncor Electric Delivery Company
- 4) The amounts presented above assume that the historical assets and liabilities will be considered at fair value due to the regulated return received through rates and that the PUC of Texas will not allow any impacts of the requirements of purchase accounting under Generally Accepted Accounting Principles to be considered in future rate making proceedings

ONCOR ELECTRIC DELIVERY
Unaudited FERC Pro Forma Adjustments
As of December 31, 2006
(\$ in thousands)

Unaudited Proforma Adjustments

	FERC Acct	Dr (000's)	Cr (000's)
a Goodwill	101	4,017,527	
Paid in Capital	201		4,017,527
Allocation of Goodwill to Oncor Electric Delivery			
b - Retained Earnings	201	1,008,317	
Accumulated OCI	201		19,369
Paid in Capital	201		988,948

Reclassification of historical equity accounts to Paid in Capital

PUC DOCKET NO. 34077
INDEX TO THE DIRECT TESTIMONY
OF FREDERICK M. GOLTZ, WITNESS FOR
TEXAS ENERGY FUTURE HOLDINGS LIMITED PARTNERSHIP

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1 **DIRECT TESTIMONY OF FREDERICK M. GOLTZ**

2

3 **I. POSITION AND QUALIFICATIONS**

4 Q. PLEASE STATE YOUR NAME, TITLE AND BUSINESS ADDRESS.

5 A. My name is Frederick M. Goltz. I am a partner in Kohlberg Kravis Roberts
6 & Co. ("KKR"). My business address is 2800 Sand Hill Road, Suite 200,
7 Menlo Park, California 94025.

8 Q. PLEASE PROVIDE YOUR EDUCATIONAL AND PROFESSIONAL
9 EXPERIENCE.

10 A. I have been with KKR for 11 years. Currently I am on the board of
11 Accuride Corp. As a member of the energy industry group, I played a
12 significant role in the development of many of the themes pursued by KKR
13 in the energy space, including those related to integrated utilities,
14 merchant generation, and oil and gas exploration & production. Prior to
15 KKR, I started my professional career with Furman Selz Incorporated in its
16 Corporate Finance Department. I have a B.A., B.S., Magna Cum Laude,
17 from the University of Pennsylvania, and an M.B.A. from INSEAD,
18 Fontainebleau, France.

19 **II. PURPOSE OF TESTIMONY**

20 Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY IN THIS
21 PROCEEDING?

22 A. The purpose of my testimony is to support the Joint Report and
23 Application of Oncor Electric Delivery Company ("Oncor") and Texas
24 Energy Future Holdings Limited Partnership ("TEF") pursuant to PURA¹
25 Section 14.101 related to TEF's proposed acquisition of TXU Corp., the
26 parent company of Oncor (the "Transaction"). Oncor is the regulated
27 transmission and distribution utility wholly owned by TXU Corp.

¹ Public Utility Regulatory Act, Tex. Util. Code Ann. Title 2 (Vernon 1998 & Vernon Supp. 2006) ("PURA").

Specifically, in this testimony I will:

- generally describe the Transaction;
- reaffirm and describe in further detail the specific commitments concerning actions that will be undertaken upon consummation of the Transaction;
- discuss the significant “ring-fencing” provisions that will be undertaken in an effort to protect the financial integrity of Oncor;
- confirm that the Transaction will have no adverse impact on the health and safety of customers or employees of Oncor;
- confirm that the Transaction will not result in the transfer of jobs to workers located outside of the state;
- confirm that the Transaction will not result in a decline of service by Oncor;
- confirm that rates Oncor charges its customers will not include any costs related to the Transaction;
- address the impact (or lack thereof) of the Transaction on the ongoing regulatory oversight of Oncor by the Public Utility Commission of Texas (the “Commission”);
- discuss the tangible benefits that will result to customers of Oncor from the Transaction; and
- demonstrate why the Transaction as it relates to Oncor is consistent with the public interest.

III. OVERVIEW OF THE TRANSACTION

Q. DESCRIBE THE TRANSACTION.

A. TXU Corp., the parent of Oncor, and TEF have entered into an Agreement and Plan of Merger dated as of February 25, 2007, among TEF, Texas Energy Future Merger Sub Corp (“Merger Sub”) and TXU Corp. (the “Merger Agreement”). A copy of the Merger Agreement (and the related Company Disclosure Letter) is attached as Exhibit FMG-1. Portions of the Company Disclosure Letter contain competitively sensitive information and

1 have been redacted. Pursuant to the Merger Agreement, Merger Sub will
2 be merged with and into TXU Corp., with TXU Corp. continuing as the
3 surviving corporation. At the closing of the Transaction, each outstanding
4 share of common stock of TXU Corp. will be converted into the right to
5 receive \$69.25 in cash, without interest and less any applicable
6 withholding taxes. Following the Transaction, TEF will own all or
7 substantially all of the outstanding shares of TXU Corp, and Oncor will
8 remain a direct or indirect wholly-owned subsidiary of TXU Corp.² TEF
9 was organized by affiliates of KKR and Texas Pacific Group ("TPG") to
10 serve as a holding company for the acquisition of TXU Corp. TEF has not
11 engaged in any other business and does not have any other operations.
12 Accordingly, while the Transaction is structured as a cash merger, the
13 businesses of TXU Corp. and Oncor are not being combined with any
14 other businesses and will continue to operate on a stand alone basis
15 following closing of the Transaction.

16 Q. WILL THE TRANSACTION RESULT IN THE TRANSFER OF ANY
17 ASSETS OF ONCOR OR THE MODIFICATION OF ANY CERTIFICATE
18 OF CONVENIENCE AND NECESSITY (CCN) HELD BY ONCOR?

19 A. No. TEF is effectively acquiring the stock of TXU Corp. through the
20 Transaction. None of Oncor's assets will be transferred as a result of the
21 Transaction. No transfer of any CCN held by Oncor will occur as a result
22 of the Transaction.

23 IV. COMMITMENTS

24 Q. DESCRIBE THE COMMITMENTS THAT TEF HAS PREVIOUSLY
25 BROUGHT FORWARD WITH RESPECT TO ONCOR UPON
26 CONSUMMATION OF THE TRANSACTION.

27 A. TEF hereby reiterates and incorporates by reference the commitments
28 TEF made with respect to Oncor in the letter filed with the Commission on

² Subject to any minority investment in Oncor, as discussed further herein. TEF expects that any minority investor would own up to, but not more than, 19.9% of the equity interest in Oncor.

1 April 2, 2007, and asks that the Commission make these commitments
2 binding on Oncor following consummation of the Transaction:

- 3 • **Name Change Commitment** - On or before closing of the
4 Transaction, the name of TXU Electric Delivery Company will be
5 changed to Oncor Electric Delivery Company. Oncor's logo will be
6 separate and distinct from the logos of the parent, TXU Corp., the
7 retail electric provider, which will retain the TXU Energy name
8 ("TXU Energy Retail"), and the power generation company, which
9 we expect to rename with the Luminant Energy brand ("Luminant").
10 In fact, the name of TXU Electric Delivery Company was changed
11 to Oncor Electric Delivery Company on April 24, 2007. TXU Corp.
12 commits to maintaining a name and logo for Oncor that is separate
13 and distinct from the names of TXU Corp.'s retail electric provider
14 and wholesale generation companies.
15
- 16 • **Separate Board Commitment** - At closing and thereafter, Oncor
17 will have a separate board of directors that will not include any
18 members from the boards of directors of TXU Energy Retail or
19 Luminant.
- 20 • **Separate Headquarters Commitment** - Within a reasonable
21 transition period after closing of the Transaction, not to exceed 6
22 months, Oncor's headquarters will be located in a separate building
23 from the headquarters and operations of TXU Energy Retail and
24 Luminant.
- 25 • **No Transaction-Related Debt at Oncor Commitment-** Oncor will
26 not incur, guaranty or pledge assets in respect of any incremental
27 new debt related to financing the Transaction at the closing or
28 thereafter. Oncor's financial integrity will be protected from the
29 separate operations of TXU Energy Retail and Luminant.
- 30 • **Debt-to-Equity Ratio Commitment** - Oncor's debt will be limited
31 so that its regulatory debt-to-equity ratio is at or below the assumed
32 debt-to-equity ratio established from time to time by the
33 Commission for ratemaking purposes, which is currently set at 60%
34 debt to 40% equity. For ratemaking purposes, in its scheduled rate
35 cases in 2007 and 2008, Oncor will support a cost of debt that does
36 not exceed Oncor's actual cost of debt immediately prior to the
37 announcement of the Transaction.
- 38 • **Capital Expenditure Commitment** - Following the closing of the
39 Transaction, Oncor will continue to make capital expenditures
40 consistent with the capital expenditures in Oncor's business plan.

1 Total capital spending will depend in part on economic and
2 population growth in Texas, as well as permitting and siting
3 outcomes. However, in any event, over the five years following the
4 year in which closing of the Transaction occurs, Oncor will make
5 capital expenditures in connection with its transmission and
6 distribution business in an aggregate amount of more than \$3.0
7 billion.

- 8 • **DSM/Energy Efficiency Commitment** - Over the five years
9 following the year in which closing occurs, subsidiaries of TXU
10 Corp. will expend an aggregate of at least \$200 million on demand-
11 side management/energy efficiency programs ("DSM") over the
12 amount included by the Commission in Oncor's rates. This
13 commitment will approximately double the level of spending on
14 DSM currently included in Oncor's rates. Oncor will not seek to
15 recover in rates any of the \$200 million in incremental DSM
16 expenditures.

- 17 • **Service and Safety Commitment** - Oncor will support the
18 inclusion of negotiated commitments with appropriate stakeholders
19 regarding reliability, customer service and employee safety in any
20 final order regarding the Transaction issued pursuant to PURA
21 Section 14.101.

- 22 • **Rate Case Commitment** - If, for any reason, the Commission has
23 not initiated a general rate proceeding for Oncor or its predecessor
24 prior to July 1, 2008, Oncor will not later than that date file a
25 general rate case consistent with its currently effective settlement
26 agreement with certain municipalities.

- 27 • **Continued Ownership Commitment** - TEF will hold a majority of
28 its ownership interest in Oncor, in the current regulatory system, for
29 a period of more than five years after the closing date of the
30 Transaction.

31 Q. DOES TEF REAFFIRM THESE COMMITMENTS?

32 A. Yes, it does. TEF stands by these commitments with respect to Oncor,
33 and requests that the Commission include these commitments as
34 enforceable provisions in the Interim Order requested in the Joint Report
35 and Application filed in this docket and in the Final Order that it issues in
36 this proceeding.

37 Q. WHY HAS TEF BROUGHT FORWARD THESE COMMITMENTS?

1 A. TEF has actively endeavored to identify actions and structural changes
2 that Oncor will undertake with respect to maintaining and enhancing
3 service and reliability for its customers in the growing Texas market and
4 protecting Oncor's financial security. Through these commitments, TEF
5 desires to demonstrate that the Transaction as it relates to Oncor is in the
6 public interest.

7 Q. ARE THERE ADDITIONAL COMMITMENTS WITH REGARD TO ONCOR
8 YOU WOULD LIKE TO MAKE IN CONJUNCTION WITH THIS PURA
9 SECTION 14.101 FILING?

10 A. Yes. Following the consummation of the Transaction:

- 11 • **Holding Company Commitment** - A new holding company, Oncor
12 Electric Delivery Holdings, will be formed between TXU Corp. and
13 Oncor.
- 14 • **Independent Board Commitment** - Each of Oncor Electric
15 Delivery Holdings and Oncor will have a board of directors
16 comprised of at least nine persons. A majority of the board
17 members of each of Oncor Electric Delivery Holdings and Oncor
18 will qualify as "independent" in all material respects in accordance
19 with the rules and regulations of the New York Stock Exchange
20 ("NYSE") (which are set forth in Section 303A of the NYSE Listed
21 Company Manual and in Exhibit FMG-2), from TXU Corp. and its
22 subsidiaries (including TXU Energy Retail and Luminant), TPG and
23 KKR. Consistent with TEF's commitments, the directors of Oncor
24 and Oncor Electric Delivery Holdings will also not include any
25 members from the boards of directors of TXU Energy Retail or
26 Luminant.
- 27 • **Affiliate Asset Transfer Commitment** - Neither Oncor Electric
28 Delivery Holdings nor Oncor will transfer any material assets or
29 facilities to any affiliates (other than the Ring-Fenced Entities, as
30 hereinafter defined), other than such transfer that is on an arm's
31 length basis consistent with the Commission's affiliate standards
32 applicable to Oncor, regardless of whether such affiliate standards
33 would apply to the particular transaction.
- 34 • **Arm's Length Relationship Commitment** - Each of the Ring-
35 Fenced Entities will maintain an arm's length relationship with the
36 TXU Group (as defined below) consistent with the Commission's
37 affiliate standards applicable to Oncor.

- 1 • **Separate Books and Records Commitment** - Each of the Ring-
2 Fenced Entities will maintain accurate and appropriate detailed
3 books, financial records and accounts, including checking and other
4 bank accounts, and custodial and other securities safekeeping
5 accounts that are separate and distinct from those of any other
6 entity.

7 Oncor Electric Delivery Holdings, Oncor and their subsidiaries are herein
8 referred to as the "Ring-Fenced Entities". TXU Corp. and its subsidiaries,
9 other than the Ring-Fenced Entities, are herein referred to as the "TXU
10 Group".

11 Q. ARE YOU REQUESTING THAT ALL OF THE COMMITMENTS AS SET
12 FORTH IN THE JOINT REPORT AND APPLICATION BE INCLUDED IN
13 THE COMMISSION'S FINAL ORDER IN THIS DOCKET?

14 A. Yes, I am.

15 Q. IS THERE ADDITIONAL DETAIL YOU WISH TO PROVIDE WITH
16 REGARD TO THE VARIOUS COMMITMENTS TEF HAS BROUGHT
17 FORWARD?

18 A. Yes. I would like to address certain of the commitments in more detail.

19 **A. "RING-FENCING" PROVISIONS**

20 Q. WHAT DO YOU MEAN GENERALLY WHEN YOU USE THE TERM
21 "RING-FENCING"?

22 A. As described more fully in the testimony of Steven Fetter, my
23 understanding is that "ring-fencing" involves the legal, financial,
24 contractual, regulatory, and public separation of one entity from its
25 affiliates with the intention that adverse financial circumstances of one or
26 more of the affiliates not affect the creditworthiness and financial stability
27 of the "ring-fenced entity." Oncor is not ring-fenced today, and our
28 intention is to strengthen the legal separateness of Oncor from its
29 unregulated affiliates, as well as to include additional financial, contractual
30 and regulatory protections for Oncor and to clarify the separateness of

1 Oncor from its unregulated affiliates in the public's mind by choosing
2 distinct names for each separate business.

3 Q. WHAT ARE THE LEGAL OR STRUCTURAL SEPARATIONS YOU
4 PROPOSE?

5 A. Prior to TEF's becoming the controlling shareholder of TXU Corp., Oncor
6 has been a wholly owned subsidiary, reporting to the senior management
7 team of TXU Corp. Following the Transaction, the following structural
8 changes will be implemented in an effort to protect and advance the
9 interests of Oncor alone:

- 10 • First, a newly formed entity ("Oncor Electric Delivery Holdings"),
11 whose sole purpose will be to own equity in Oncor, will be formed
12 between TXU Corp and Oncor.
- 13 • No member of the board of either Oncor Electric Delivery Holdings
14 or Oncor will be a member of the board of Luminant or TXU Energy
15 Retail. No employees of TXU Corp. or any of its subsidiaries, other
16 than Oncor and Oncor Electric Delivery Holdings, will be on the
17 board of Oncor or Oncor Electric Delivery Holdings.
- 18 • A majority of the members of the boards of Oncor Electric Delivery
19 Holdings and Oncor will be "independent" (as defined by the rules
20 of the NYSE, which definition is set forth in Exhibit FMG-2) in all
21 material respects of TXU Corp. and its subsidiaries (including TXU
22 Energy Retail and Luminant), KKR and TPG.
- 23 • The organizational documents of each of Oncor and Oncor Electric
24 Delivery Holdings will contain a provision that requires the
25 unanimous approval of the directors present and voting (which in
26 any event will include all of the independent directors) in order for a
27 Ring-Fenced Entity to file a voluntary petition in bankruptcy. The
28 intent here is to remove the ability of the TXU Group to cause the
29 Ring-Fenced Entities to file for bankruptcy.

30 Q. WHY WILL ONCOR ELECTRIC DELIVERY HOLDINGS BE FORMED
31 AND INSERTED BETWEEN TXU CORP. AND ONCOR?

32 A. Oncor Electric Delivery Holdings, a newly formed, bankruptcy-remote,
33 entity, similar to entities widely used in the multi-billion dollar securitization

1 industry, is an effort to further enhance the separation of Oncor from the
2 TXU Group (as well as from KKR and TPG).

3 Oncor Electric Delivery Holdings will have no debt, no material
4 other liabilities, and very limited business or other contractual relationships
5 with any member of the TXU Group. In addition, as a newly formed entity,
6 Oncor Electric Delivery Holdings will always have abided by the strict
7 separateness requirements imposed by ring-fencing in its day-to-day
8 course of dealing with the TXU Group.

9 TEF believes that creating a "clean" legal and operational break
10 between TXU Corp. and Oncor is an important additional structural
11 protection.

12 Q. PLEASE DESCRIBE THE COMPOSITION OF ONCOR'S BOARD OF
13 DIRECTORS AND HOW THAT WILL RELATE TO THE TXU GROUP?

14 A. Oncor's board will be comprised of at least nine directors:

- 15 • Six directors will be independent in all material respects of TXU
16 Corp. and its subsidiaries (including TXU Energy Retail and
17 Luminant), KKR and TPG, according to the NYSE definition.
- 18 • One director will be an Oncor employee, likely the Oncor CEO.
- 19 • Two directors will be nominated by TXU Corp.; however, these two
20 directors will not be employees of TXU Corp. or any of its
21 subsidiaries.
- 22 • As described in footnote 2 above, it is anticipated that any minority
23 interest owner in Oncor would receive the right to nominate up to
24 two additional directors to the Oncor board, in which case the board
25 would increase to 11 members.

26 Q. WHAT BENEFITS ARE INTENDED TO FLOW FROM HAVING BOARDS
27 OF DIRECTORS FOR ONCOR ELECTRIC DELIVERY HOLDINGS AND
28 ONCOR THAT ARE MAJORITY INDEPENDENT FROM THE TXU
29 GROUP AND COMPLETELY SEPARATE FROM LUMINANT AND TXU
30 ENERGY RETAIL?

1 A. The presence of a majority of independent directors on the board of Oncor
2 Electric Delivery Holdings and Oncor is an effort to provide further
3 assurance that the interests of Oncor and its customers will be protected
4 and advanced, irrespective of Oncor's affiliation with Luminant, TXU
5 Energy Retail or other members of the TXU Group. For example,
6 although all interactions between Oncor and TXU Energy Retail are
7 conducted strictly on an arms-length basis today (as required by Texas
8 law, and as reviewed by the Commission in 2001), a majority independent
9 board of directors is intended to act as a further control to ensure an arm's
10 length relationship between the Ring-Fenced Entities and the TXU Group.

11 Q. WHAT RESTRICTIONS WILL BE IMPOSED ON ONCOR'S ABILITY TO
12 PAY DIVIDENDS TO TXU CORP.?

13 A. Oncor's organizational documents will contain a restriction on dividends
14 pursuant to which dividends will be permitted only to the extent that, after
15 giving effect to such dividend, Oncor's debt-to-equity ratio for regulatory
16 purposes would be equal to or below the assumed debt-to-equity ratio
17 established from time to time by the Commission for rate-making purposes
18 (currently set at 60% debt to 40% equity). Further, the independent
19 directors, acting by majority vote, will have the authority to prevent Oncor
20 from paying a dividend if they determine that it is in the best interests of
21 Oncor to retain such amounts to meet expected future requirements
22 (including continuing compliance with the debt-to-equity ratio described
23 above). The organizational documents of Oncor will also provide that any
24 amendment of those commitments as embodied in the organizational
25 documents can only be adopted with the affirmative consent of at least a
26 majority of the independent directors of Oncor, and of both non-
27 independent directors of Oncor that are nominated by TXU Corp. or its
28 subsidiaries.

29 Q. WHAT ARE THE FINANCIAL SEPARATIONS THAT ONCOR ELECTRIC
30 DELIVERY HOLDINGS AND ONCOR WILL ADOPT?