are applied directly against the balance in the regulatory liability. Since no amount of these costs are reflected in GAAP reported net income, correspondingly, no amount is reflected as operating expense in quarterly earnings reported to the Commission in the Earnings Monitoring Report or any other Commission-required filing, including this filing.

Q. HAS ONCOR RECORDED THE $100 MILLION OF ENERGY EFFICIENCY PROGRAM COSTS IN A MANNER THAT WILL FACILITATE MONITORING THE AMOUNTS SPENT?

A. Yes. Oncor applies the costs of each energy efficiency program project related to the commitment directly against the balance in the regulatory liability account using unique project numbers or "project codes." The remaining balance in unspent energy efficiency program costs is reflected as a regulatory liability in the Company's quarterly SEC Form 10-Q and annual SEC Form 10-K filings until the commitment is satisfied and the balance in the regulatory liability is eliminated on or before December 31, 2012.

Q. DOES THIS SAME COST RECORDING MECHANISM ALLOW ONCOR TO TRACK THESE COSTS IN ORDER TO ADJUST (REDUCE) NET INCOME FOR DIVIDEND PAYMENT PURPOSES?

A. Yes. Amounts actually spent on a quarterly basis reduce the DSM/energy efficiency regulatory liability and the same amount is used to increase expense for the calculation of dividend payments. In accordance with FOF No. 67, Oncor files quarterly earnings monitoring reports with the Commission and includes information on dividends paid. DSM/energy efficiency costs are reflected on these reports as an adjustment to expense for purposes of calculating dividend payments.

Q. WHAT IS THE AMOUNT SPENT TO DATE ON THIS COMMITMENT?

A. As of June 30, 2010, Oncor has spent approximately $30 million on qualified energy efficiency programs.

Q. ARE THE EXPENSES ASSOCIATED WITH THIS REGULATORY LIABILITY INCLUDED IN THIS FILING?

A. No. Oncor's investors are responsible for paying for these costs and, as such, none of the expenses associated with this commitment are reflected in this filing. Correspondingly, the balance in the regulatory liability is not included in the Company's rate base.

b. Goodwill & Equity

Q. HAS ONCOR INCLUDED ANY AMOUNT OF GOODWILL THAT RESULTED FROM THE MERGER IN ITS PROPOSED REVENUE REQUIREMENT?

A. No, consistent with FOF No. 81, Oncor has not included goodwill or any of the merger-related adjustments in the Company's proposed revenue requirement. Goodwill represents the excess of the purchase price over the fair value of assets and liabilities. Because of cost-based rate-making processes, the book value of the majority of Oncor's assets and liabilities represent their fair value. As reflected in the Company's June 30, 2010 SEC Form 10-Q, Oncor has recorded $4,063,838,672 of goodwill. Additionally, Oncor has recorded $296,465,592 in other merger-related purchase accounting adjustments. These adjustments have been charged directly against equity and result in a net $3,767,373,079 amount ($4,063,838,672 - $296,465,593) of total purchase accounting adjustments, including goodwill. None of these amounts are included in the company's revenue requirement or equity capital that is included in this filing.

Q. WHAT IS THE AMOUNT OF EQUITY THAT CORRESPONDS TO ONCOR'S UTILITY OPERATIONS?

A. The total amount of equity reported in Oncor's June 30, 2010 SEC Form 10-Q is $6,894,023,529. In order to determine the portion of equity capital attributable to utility operations that has been provided by investors, I have subtracted the $3,767,373,079 of goodwill and purchase accounting adjustments from the amount of total company equity, resulting in $3,126,650,449 of investor supplied equity capital corresponding to T&D utility operations. This amount is reflected on RFP Schedule II-C-2.1 as

the balance in equity, after all pro forma adjustments, that correspond to Oncor's utility operations.

Q. IS THE $3,126,650,449 OF EQUITY USED FOR THE CALCULATION OF ONCOR'S EQUITY RETURN ON RATE BASE?

A. No. As mentioned previously, certain regulatory practices produce financial results or amounts that vary from those reported externally. Additionally, an amount of the Company's total equity attributable to utility operations corresponds to advanced meter deployment (which has been excluded from this filing). The first step in determining the amount of equity allowable for rate-making purposes is the valuation of the company's rate base. Rate base represents the total value of a utility's net investment in property, plant and equipment, materials and supplies, prepayments and cash working capital, and other items used and useful in providing T&D service to the customer less deferred taxes. The next step in the process is to apply the ratio of the equity capital component as a percentage of the total capital structure against the company's rate base. Oncor's rate base included in this filing is $8,118,241,540. Multiplying this amount by Oncor's requested 45% equity capital ratio results in $3,653,208,693 of equity capital. A "return on equity" amount is then determined by using the Company's authorized equity rate of return percentage applied to the amount of equity capital.

In summary, equity capital actually provided by investors differs from the equity capital amount as represented by a percentage of the rate base. Differences can typically result between the actual capital structure of the Company and the capital structure used and approved by the commission for rate making purposes. Additionally, differences result from the regulatory treatment of certain costs such as construction work in progress ("CWIP") and non-utility property, which are typically excluded for rate making purposes. The amount of utility-related equity on Oncor's books after removing goodwill and purchase accounting adjustments is $3,126,650,449. The amount of equity capital included in the Company's

filing is $3,653,208,693 based on a 55% debt and 45% equity capital structure ratio. Company witness Mr. John Casey has recommended and provided me with the requested 55% debt and 45% equity capital structure for use in the Company's requested revenue requirement.

c. Separate Books and Records

Q. DOES ONCOR MAINTAIN BOOKS AND RECORDS SEPARATE AND APART FROM THOSE OF ANY OTHER ENTITY?

A. Yes. Oncor is a separate legal entity, of which approximately 80% is owned by EFH Corp and approximately 20% is owned by Texas Transmission, and Oncor maintains its financial statements separate from its affiliates. Therefore, Oncor is in compliance with the commitment specified in FOF No. 57 in the Order on Rehearing in Docket No. 34077. Additionally, Oncor continues to record its costs consistent with the FERC's Uniform System of Accounts as required by the Commission. Oncor prepares and files stand-alone financial reports to the SEC including Forms 10-K (annual report) and 10-Q (quarterly report) separately from the other subsidiary companies of EFH Corp.

B. Overview of Cost Functionalization

Q. PLEASE DESCRIBE THE FUNCTIONALIZATION OF COSTS AS USED IN YOUR DIRECT TESTIMONY.

A. As described more fully in the direct testimony of Mr. Jenkins, Oncor is a regulated electric transmission and distribution utility. The Company is principally engaged in: (1) providing electric distribution delivery service to the end-use customers of approximately 80 REPs that sell power in the north, central, eastern and western parts of Texas; (2) providing transmission services to the Company's distribution business function, other investor-owned distribution utilities, electric cooperatives, and municipal utilities; and (3) providing interconnections to merchant power plants and other transmission and distribution electric providers in Texas.

For regulatory purposes, the six regulated business functions identified in the "General Instructions" of the RFP are as follows: (1)

Transmission ("TRAN"); (2) Distribution ("DIST"); (3) Transmission and Distribution Utility Metering System Services ("MET"); (4) Transmission and Distribution Utility Billing System Services ("TBILL"); (5) Additional Billing Services ("ABILL"); and (6) Transmission and Distribution Utility Customer Service ("TDCS"). Thus, for purposes of my testimony, the term business function refers to one or more of these six classifications of electric utility costs to which the Company's cost of service and rate base amounts are applied or "functionalized" in the manner specified by the RFP instructions. The Company has no costs classified as ABILL

The FERC Uniform System of Accounts serves to guide the functionalization of a significant portion of the Company's costs; however, some accounts contain costs for more than one business function. Therefore, in order to directly assign Oncor's costs to the fullest extent possible between the Commission's prescribed functions, the Company relies on additional detail contained in its accounting systems.

Q. WHY IS COST FUNCTIONALIZATION BETWEEN THE TRANSMISSION, DISTRIBUTION, AND OTHER UTILITY FUNCTIONS NECESSARY IN ESTABLISHING ONCOR'S RATES?

A. Oncor provides both wholesale transmission service and retail distribution service within the Electric Reliability Council of Texas ("ERCOT") region. Because the Company's wholesale transmission customers and retail distribution customers are different, it is necessary to appropriately functionalize the Company's costs to ensure that Oncor's cost of service is recovered from those customers who benefit from the service provided. Additionally, because certain costs such as meter reading and billing activities are recovered through a customer charge rather than a volume or demand based tariff, it is necessary to functionalize these amounts separately from the other transmission and distribution costs.

Certain of the RFP schedules have a column labeled "Total TX-Retail," which excludes the functionalized transmission (TRAN) costs from the total. Thus, in these cases, the Total TX-Retail amount incorporates

only the functionalized costs for DIST, MET, TBILL, and TDCS. This column represents the total costs includable in the Company's base rate revenue requirement for the distribution utility function.

Q. HAS ONCOR ASSIGNED ITS TEST-YEAR COSTS TO THE UTILITY FUNCTIONS IN ACCORDANCE WITH THE COMMISSION'S RATE FILING PACKAGE INSTRUCTIONS?

A. Yes. The Commission's cost functionalization objectives are set forth in General Instruction No. 11 of the RFP, which prescribes a three-tier functionalization process. First, for each FERC account, costs are directly assigned to the fullest extent possible. Second, for costs that cannot be directly assigned, the Company derives either an account-specific functionalization factor based on the directly assigned costs or an appropriate cost-causation principle, while adequately justifying any such assignments. Finally, for adequately documented costs that remain, and for which direct assignment or account specific functionalization cannot be identified, an appropriate functionalization factor prescribed in RFP Schedule II-F is used.

The Commission, through this three-tier approach to cost functionalization, has directed Oncor to determine the best method it has available to directly assign its costs to the fullest extent possible. The RFP instructions do not prescribe the method to be used to accomplish cost functionalization, as each utility has varying degrees of recorded accounting information and sophistication within its accounting system. In accordance with the RFP instructions, Oncor has directly assigned all costs contained within its rate filing schedules to the fullest extent possible. I discuss the specific method used to assign the Company's costs in the sections that follow.

C. Definition and Functionalization of O&M Expense

Q. WHAT IS THE TOTAL AMOUNT OF ONCOR'S ADJUSTED O&M COSTS THAT HAVE BEEN INCLUDED IN THIS FILING?

A. The total amount of adjusted O&M expense included in this filing is $1,321,142,566. This amount is detailed by each individual FERC account in RFP Schedules II-D-1 and II-D-2. The basis for this information is derived from the books and records of Oncor. The related adjustments to the test-year level of O&M expense are covered later in my testimony.

Q. PLEASE DESCRIBE ONCOR'S O&M EXPENSES.

A. O&M expenses are costs that are incurred for the on-going operations and maintenance activities associated with the transmission, transformation, delivery, measurement, and billing of electric energy to the customer. These costs include, but are not limited to, labor, materials and supplies, transportation, rent, amortization of prior period expenditures, and other revenue-related miscellaneous costs. O&M is grouped into two primary classifications of costs within the FERC Uniform System of Accounts: (1) direct (*i.e.*, function specific) expense; and (2) indirect expense (*i.e.*, administrative and general costs).

Q. PLEASE DESCRIBE DIRECT O&M COSTS AND THE FERC ACCOUNTS THAT ARE CHARGED FOR THESE CLASSIFICATIONS OF COSTS.

A. Direct O&M costs are operating expenditures that are directly incurred in the transmission, distribution, metering, and billing of electric energy to the end-use customer and the costs of providing customer service. Examples of these costs include, but are not limited to, salaries for personnel involved in the operation and maintenance of transmission, transformation, and distribution facilities, costs of system control and load dispatching, and salaries and other expenses related to metering and measurement services. Additionally, other direct O&M costs are incurred for customer service and revenue recovery activities, such as REP billing and collection. The FERC Uniform System of Accounts explicitly classifies these direct O&M costs within the following series of accounts:

Account Numbers	Account Number Description
560 through 574	Transmission Operation and Maintenance Expense
580 through 598	Distribution Operation and Maintenance Expense
901 through 905	Customer Accounts
906 through 910	Customer Service and Information
911 through 917	Sales Expense

Costs recorded to these accounts can, in most cases, be directly assigned to a single utility function based solely on the FERC account number to which the costs have been recorded.

Q. PLEASE DESCRIBE THE INDIRECT (ADMINISTRATIVE AND GENERAL) O&M COSTS AND THE FERC ACCOUNTS THAT ARE CHARGED FOR THESE COSTS.

A. Administrative and general ("A&G") O&M costs are those expenditures that are not directly associated with the actual transmission or delivery of electric energy to the customer. Costs properly includable as A&G are charged to FERC accounts 920 through 935. Examples of A&G costs include property and liability insurance, regulatory expense, salaries and wages for administrative personnel, amortization of regulatory assets, legal costs, employee benefits, and rents and maintenance of general office equipment and facilities.

All business functions of Oncor utilize the A&G series of accounts for the recording of their A&G costs. The A&G series of FERC accounts is, therefore, more difficult to assign to a specific business function, as the account number is not function specific. Nonetheless, a significant portion of Oncor's A&G costs can be directly traced to a specific business function based on the cost center or organization responsible for incurring the cost and, therefore, can still be directly assigned.

A portion of the Company's A&G costs, however, must be assigned to a business function based on an appropriate cost driver. Cost drivers

represent a measurable event or quantity that influences the level of costs incurred and that can be directly traced to the origin of the indirect costs themselves. An example of such costs would be employee benefits, whereby the direct labor amount is a "cost driver" that influences the level of the indirect costs of employee benefits.

Finally, some A&G costs cannot be directly assigned or allocated based on a readily identifiable cost causative driver and, as discussed earlier, must be allocated through the use of the Commission-approved factors contained in the instructions for RFP Schedule II-F.

1. Transmission O&M Expense

Q. HOW HAVE ONCOR'S DIRECT TRANSMISSION O&M COSTS BEEN FUNCTIONALIZED FOR PURPOSES OF THIS FILING?

A. The majority of the Company's direct transmission O&M costs, recorded in transmission FERC accounts 560 through 574, relate to the on-going operation and maintenance of Oncor's high-voltage transmission system (facilities with voltages equal to or greater than 60 kV). In accordance with Substantive Rule 25.192(c)(1), costs associated with maintenance of load-serving equipment located in transmission switching stations is charged to transmission O&M accounts, but has been functionalized as distribution expense for purposes of this filing. A listing of the transmission account numbers and the work activities performed and recorded to O&M expense by the transmission business unit for each transmission FERC account is contained in my workpaper WP/II-D-01. The workpapers reflect the assignment of each transmission O&M account and related costs to the appropriate business function based on the direct assignment of costs through examination of work activities that are recorded by the transmission business unit to the accounting records of the Company.

Q. PLEASE DISCUSS THE PROCESS USED TO DIRECTLY ASSIGN TRANSMISSION O&M EXPENSE.

A. The transmission business unit records its costs to unique functionalized department identification ("Dept. ID") codes. Dept. ID codes are

functionalized business organizations or "cost centers." Additionally, the transmission business unit further records its costs to an "activity code." An activity code is a cost-recording mechanism used to further describe the various work activities performed by transmission organizations. By utilizing the combination of the FERC O&M account, Dept ID, and activity code recorded for each transmission charge, costs can be more narrowly defined below the FERC account level of detail. As an example, FERC account 570 is charged for the costs of the Company's transmission substation equipment maintenance. Each charge to this account on the books and records of Oncor is further identified to the transmission business unit organization that is responsible for incurring the cost through a Dept ID code. Additionally, an activity code representing various work processes, such as "high-voltage breaker maintenance," is coded on the financial transaction, thus allowing much greater information to be obtained about the transaction.

Q. PLEASE DESCRIBE THE UNIQUE NATURE OF ACCOUNTING FOR COSTS RELATED TO THE TRANSMISSION O&M EXPENSE RECORDED IN FERC ACCOUNT 565.

A. The FERC Uniform System of Accounts classifies Account 565, Transmission of Electricity by Others, as a transmission operating expense. These expenses relate solely to the cost of network transmission services for the delivery of high-voltage electricity to the local distribution network power grids, where the power can then be converted to distribution voltages and delivered to customers. In the restructured Texas market, a distribution utility company pays for the transmission delivery services to both its related transmission business and to other transmission service providers operating in ERCOT. Distribution revenues are collected to recover these costs and periodically adjusted for changes in costs through a transmission cost recovery factor ("TCRF"), as discussed in Mr. Sherburne's testimony. Therefore, FERC account 565 has been functionalized as a distribution operating expense in order to

properly match the cost of transmission services with transmission revenues that are collected by the distribution business unit from customers within its certificated service area.

Q. HAVE ANY ADJUSTMENTS BEEN MADE TO TRANSMISSION O&M?

A. Yes. As I will discuss later, I have adjusted transmission O&M for known and measurable changes, non-recurring costs, non-allowable costs, and minor accounting revisions.

2. Distribution O&M Expense

Q. HOW HAVE ONCOR'S DIRECT DISTRIBUTION O&M COSTS BEEN FUNCTIONALIZED FOR PURPOSES OF THIS FILING?

A. The majority of direct distribution O&M costs have been directly assigned to a business function based on the FERC account number. The FERC distribution series of direct O&M accounts reflects costs associated with overhead and underground primary and secondary conductors, distribution substations, overhead and pad-mounted transformers, vegetation management, distribution service conductors, and public roadway street lighting. All costs recorded for work activities relative to the operation and maintenance of distribution voltage utility plant infrastructure accounts have properly been assigned to the distribution business function based on the FERC account. A listing of the distribution accounts and the recorded amounts are contained in my workpaper WP/II-D-01.

The FERC distribution series of direct O&M accounts also is utilized for the recording of costs associated with the installation, removal, testing, repair, inspection, and calibration of meters and related metering equipment and devices. Expenses recorded to these accounts are directly associated with operation and repair of meters used for the measurement of electric energy usage. The costs related to the Company's existing metering activities have been directly assigned to the metering (MET) business function within the rate filing schedules. As previously mentioned, costs associated with advanced meters that are

subject to an advanced metering surcharge have been identified and removed from the Company's requested revenue requirement.

Q. HAVE ANY ADJUSTMENTS BEEN MADE TO THE DISTRIBUTION DIRECT O&M EXPENSES?

A. Yes. As I will discuss later, I have adjusted the distribution O&M accounts for known and measurable adjustments, non-recurring costs, non-allowable costs, and minor accounting revisions.

3. Customer Accounts Expense

Q. HOW HAVE ONCOR'S CUSTOMER ACCOUNT COSTS BEEN FUNCTIONALIZED FOR PURPOSES OF THIS FILING?

A. FERC accounts 901 through 905 are charged for the maintenance of customer records and revenue recovery activities. Examples of these costs include:

- preparation of customer billings;
- operating and maintaining customer billing systems;
- processing and recording payments and collections to customer accounts;
- disconnecting and reconnecting service; and
- reading meters and computing energy consumption.

FERC account 901, Customer Accounts Supervision, is charged for the cost of general supervision and direction of distribution customer accounting activities. This account was directly assigned to the TDCS function. FERC account 902, Meter Reading Expense, is charged for the costs of meter reading, meter re-reads, changing meter demand charts, and general supervision, routing and scheduling of meter reading activities. I have directly assigned these costs to the metering business function in accordance with Substantive Rule 25.341. FERC account 903, Customer Records and Billing Expense, is charged for: (1) certain meter-related activities; (2) costs associated with distribution revenue recovery activities; and (3) distribution billings and collections, maintenance of account records, and the receiving, processing, and recording of REP

payments. Costs recorded to FERC account 903 that are associated with meter-related activities have been directly assigned to the metering business function. As shown in my workpaper WP/II-D-01, the remainder of the costs recorded in FERC account 903 has principally been assigned to the TBILL function. Costs recorded to FERC account 904, Provisions for Uncollectible Accounts, have been directly assigned to the TDCS function. Generally, these costs relate to miscellaneous account receivable charge-offs. FERC account 905, Miscellaneous Customer Account Expenses, was not used by the Company during the test-year. The functionalized costs and assignment methodology for customer accounts expense is contained in my workpaper WP/II-D-01.

4. Customer Service and Information Expense

Q. HOW HAVE ONCOR'S CUSTOMER SERVICE AND INFORMATION ACCOUNT COSTS BEEN FUNCTIONALIZED FOR PURPOSES OF THIS FILING?

A. FERC accounts 906 through 910 are charged for the costs of labor, materials, and other costs incurred in providing instruction or assistance to electric consumers, the object of which is to encourage safe, efficient, and economical use of electric energy. Account 908, Customer Assistance Expense, is charged for costs associated with energy efficiency programs. As discussed later in my direct testimony, $48,971,936 of these costs has been removed from the Company's requested cost of service. These costs are recovered in a separate tariff. In addition, certain costs associated with economic and community development activities have been assigned to the TDCS function. Account 910, Miscellaneous Customer Services Expenses, was mostly assigned to the TDCS function. The Company's requested cost of service includes no amounts related to FERC accounts 906, 907, and 909. The functionalization and cost assignment methodology for each Customer Service and Information account is contained in my workpaper WP/II-D-01.

5. Sales Expense

Q. HOW HAS ONCOR'S SALES EXPENSE BEEN FUNCTIONALIZED FOR PURPOSES OF THIS FILING?

A. FERC accounts 911 through 917 are charged for certain activities labeled "Sales Expense" in the FERC Uniform System of Accounts. The Company charges these accounts for programs that promote the efficient use of electric utility services. The programs educate and inform consumers on safety and other general public awareness issues by demonstrating appropriate use of utility services. The Company's requested cost of service includes an amount of $240,846 related to these FERC accounts.

6. Administrative and General Expense

Q. HOW HAS ONCOR FUNCTIONALIZED ITS ADMINISTRATIVE AND GENERAL SERIES OF INDIRECT O&M ACCOUNTS?

A. The A&G series of FERC accounts 920 through 935 are charged for the costs of indirect administrative salaries, office equipment and supplies, outside professional services, and other miscellaneous expenses that are generally considered support activities or indirect overheads. Unlike the direct series of O&M accounts that I have previously discussed, A&G account numbers provide little specific identification as to the functionalization of the recorded costs. Therefore, the costs recorded to this series of accounts must be analyzed using other recorded accounting information for the accurate assignment to a business function. As I have discussed previously, the Company records its costs to a unique functionalized Dept ID code representing the functionalized transmission and distribution business unit organizations or, as frequently referred to, "cost centers." These organizations are functionalized groupings of employees and activities, and their corresponding Dept ID is charged for the labor, materials and supplies, employee benefits, and other costs that the organization directly or indirectly is responsible for incurring. As an example, the Company's transmission engineering organization is

assigned its own unique Dept ID code, which differs from the Dept ID code of the distribution engineering organization. The transmission engineering Dept ID code is charged for all costs of its employee wages, pensions and benefits, office and computer leases, and other direct and indirect costs that are utilized for the engineering, mapping, and design activities of the transmission business unit. By examining Dept ID codes, the appropriate amount of expense associated with the transmission engineering organization can then be readily identified and, therefore, directly assigned to the appropriate business function. Dept ID codes allow the Company to trace recorded amounts to the responsible functionalized organization that originated or incurred the A&G cost.

Q. CAN THE DEPT ID CODE BE USED TO DIRECTLY ASSIGN ALL COSTS RECORDED TO THE ADMINISTRATIVE AND GENERAL SERIES OF FERC ACCOUNTS?

A. No. Oncor manages a portion of its indirect A&G costs at a "corporate" level. Corporate organizations have been established for managing and disbursing common indirect costs that benefit or are incurred on behalf of all business units of the Company. An example of these costs is property insurance premiums. These costs cannot be readily identified or associated with a single business function when incurred or paid. In order to functionalize these costs, I have relied upon allocation factors contained in Schedule II-F to assign costs associated with a portion of the Company's expense.

Q. PLEASE DESCRIBE THE PROCESS USED TO ASSIGN COSTS RECORDED TO ADMINISTRATIVE AND GENERAL EXPENSE.

A. RFP General Instruction No. 11(a) requires that all costs be directly assigned to the appropriate function to the fullest extent possible. Therefore, I have used the Company's Dept ID codes as a means to determine the assignment of costs to the organization that is responsible for incurring the expense. Accordingly, the source for all costs recorded by Dept ID code is the books and records of the Company. However, for

those A&G costs that I could not directly assign through the use of a Dept ID code or other cost-causation principle, I have relied upon the Commission-approved allocation factors contained in the RFP instructions for Schedule II-F(3).

For the assignment of A&G expense, I first summarized all costs by each A&G account for each transmission and distribution department based on their functionalized Dept. ID codes. I then developed functionalization factors for each transmission and distribution Dept ID code, based on their functionalized direct O&M costs. I applied these direct O&M functionalization factors to each department's A&G expenses. This process resulted in a logical assignment of transmission and distribution indirect A&G expense to the business functions based on the assignment of actual direct O&M costs of those functions.

7. Advertising, Contribution & Donation Expense, and Organization Memberships & Dues

Q. HAS ONCOR INCLUDED ANY COSTS OF ADVERTISING, CONTRIBUTIONS AND DONATIONS, AND MEMBERSHIPS AND DUES IN ITS COST OF SERVICE AMOUNTS?

A. Yes. The Commission has recognized the positive impact that utilities have on the communities that they serve by allowing a certain level of advertising costs and other programs that provide consumer information about electricity safety, energy conservation, and other programs of interest to the general public. Likewise, contributions and donations that promote improved quality of life and economic development in the communities served by a utility will foster environments that encourage growth and thereby a greater base of customers upon which fixed costs can be spread.

In addition, organization memberships and participant dues provide, among other things, industry information sharing and professional employee development that improve Oncor's ability to provide quality and

efficient electric delivery service. Company witness Mr. Greer discusses these matters in more detail in his testimony.

Substantive Rule 25.231(b)(1)(E) prescribes that the costs of advertising, contributions, and donations are to be limited to three-tenths of one percent (0.3 percent) of the gross receipts (or revenues) of the electric utility for services rendered to the public.

Q. WHAT IS THE TOTAL AMOUNT OF ADVERTISING, CONTRIBUTIONS, DONATIONS, MEMBERSHIPS, AND DUES INCLUDED IN ONCOR'S COST OF SERVICE?

A. As shown in Schedule II-D-2.3 of the RFP, the Company's total expenses for advertising, contributions, donations, memberships, and dues totaled $3,084,410 during the test-year. However, $1,335,484 of that amount relates to organizational memberships and dues expenses that are not subject to the limitation in Substantive Rule 25.231(b)(1)(E). Thus, of the total, only $1,748,926 is subject to the limitation described above.

Q. DOES THIS TOTAL OF ADVERTISING, CONTRIBUTIONS, DONATIONS, MEMBERSHIPS, AND DUES EXCEED THE COMMISSION'S PRESCRIBED LIMITATION THAT YOU PREVIOUSLY MENTIONED?

A. No. As shown on Schedule II-D-2.3, the unadjusted applicable test-year revenue level would indicate a dollar limitation of about $8.6 million. At less than 21 percent of this ceiling, the Company's requested level for these costs is reasonable. Of course, when compared to the requested level of revenues, the test-year expenses for these costs would be an even lower percentage of the allowable level.

IV. DESCRIPTION AND FUNCTIONALIZATION OF RATE BASE

Q. PLEASE DEFINE RATE BASE AND THE COSTS THAT HAVE BEEN INCLUDED IN THE COMPANY'S FILING.

A. As described in Substantive Rule 25.231(c)(2), a utility's "rate base, sometimes referred to as invested capital, includes as a major component the original cost of plant, property, and equipment, less accumulated

depreciation, used and useful in rendering service to the public." This component of rate base is also referred to as "Net Electric Plant in Service." For purposes of my testimony, I address five major categories of rate base components: (1) Net Electric Plant in Service; (2) Net Regulatory Assets; (3) Working Capital; (4) Materials & Supplies; and (5) Prepayments. Company witnesses Messrs. Greer and Speed, and Ms. Pulis address the reasonableness and necessity of plant investment, as well as certain components of working capital, namely materials and supplies. I will later address regulatory assets and, together with Company witness Mr. Ledbetter, will discuss the other components of working capital.

Q. PLEASE DISCUSS THE IMPACT OF THE ADOPTION OF STATEMENT OF FINANCIAL ACCOUNTING STANDARD ("SFAS") 143 ON NET PLANT INVESTMENT THAT ONCOR IS INCLUDING IN RATE BASE.

A. The Financial Accounting Standards Board ("FASB") has the primary responsibility of establishing US GAAP. Under the requirements of SFAS 143 – *Accounting for Asset Retirement Obligations*, an entity must estimate, record, and disclose in its financial statements the present value of future legal and contractual obligations related to the final removal of plant and facilities. Entities are required to record the Asset Retirement Obligation ("ARO") as a liability with a corresponding increase to the cost of the related plant ("ARO Asset"). The ARO Asset is subsequently depreciated over the useful life of the asset, and the ARO liability is increased over the life of the asset as a charge to operating expense. Effectively, the application of SFAS 143 would result in a "mark-up" in the cost of electric plant by an amount equal to the present value of the future decommissioning or removal costs.

Q. HOW HAS ONCOR APPLIED THE APPLICATION OF SFAS 143?

A. Oncor provides for the future removal costs related to plant asset retirements in its financial statements as a component of depreciation expense and correspondingly recovers these amounts in rates charged to

customers. Therefore, the difference between amounts collected and amounts actually incurred in resolving an ARO is actually embedded in the Company's depreciation reserve. Accordingly, these differences are accounted for, and ultimately recovered, in the establishment of appropriate utility depreciation rates.

At December 31, 2009, the Company estimated that it had 12,639 distribution transformers in service that contained poly-chlorinated biphenyl ("PCB") residues in excess of 50 ppm, which require disposal under environmental guidelines. The estimated ARO liability at that time was estimated to be $4.2 million.

Because Oncor utilizes a composite-based accumulated depreciation reserve methodology, and due to the immateriality of the ARO-related costs, the Company proposed to its auditors that there be no change to its current, long-standing practice of accounting for removal costs. This would allow current rate making and accounting practices to continue uninterrupted, without any unintended impact as a result of recording an ARO for financial reporting purposes. In 2009, the Company's outside auditors concurred that no recognition of an ARO liability for transformer PCB disposal costs is necessary since the amounts are immaterial. As a result, there is no SFAS 143-related ARO Asset depreciation or ARO liability-related accretion reflected in the Company's costs.

A. Electric Plant in Service

Q. PLEASE DEFINE ELECTRIC PLANT IN SERVICE.

A. Electric Plant in Service ("EPIS" or "plant") is the FERC classification of tangible and intangible utility assets utilized for the transmission and distribution of electric energy to the customer. EPIS is the most significant investment in assets on the Company's balance sheet. For Oncor, the FERC Uniform System of Accounts directs the classification of EPIS into four primary classifications of costs: (1) transmission; (2) distribution; (3) general; and (4) intangible plant. I will discuss each of these FERC

classifications of EPIS accounts and the methods used to functionalize the costs.

1. Transmission Plant

Q. HOW HAS ONCOR FUNCTIONALIZED ITS INVESTMENT IN TRANSMISSION PLANT?

A. As described in Substantive Rule 25.341(14), transmission plant relates to facilities operated at or above 60 kV that are necessary to transform and move electricity from the point of interconnection with a generation source, or other third-party electric grid facilities, to the point of interconnection with distribution facilities, or other third-party transmission facilities. The Company's investment in transmission plant is recorded as EPIS in accounts 349 through 358. This investment includes the capitalized cost of tangible transmission utility plant assets that physically begin at the high-voltage bushing of the generation unit-main transformer and terminate at the high-side bushing of a distribution substation power (*i.e.*, "step-down") transformer, excluding protective devices associated with the generation unit-main transformer. With the exception of load serving equipment located in certain transmission switching stations, costs recorded in the transmission series of plant accounts and the corresponding amounts of transmission accumulated depreciation have been directly assigned to the transmission function based on the FERC account number. The functionalized costs and functionalization method for each transmission EPIS account is contained in my Exhibit RKP-2. Documentation to support the assignment of these costs is contained in my workpapers WP/II-B-1/04 through WP/II-B-1/10.

Q. HAVE ANY RECLASSIFICATIONS BEEN MADE TO THE AMOUNTS RECORDED AS TRANSMISSION PLANT FOR PURPOSES OF THIS FILING?

A. Yes. In accordance with Substantive Rule 25.192, I have reclassified costs relating to high-voltage transmission equipment, located at the Company's distribution substations, from distribution accounts 360 (land

rights), 361 (substation structures), 362 (substation equipment), and 374 (land owned in fee) to the transmission business function. Additionally, I reclassified the Company's investment in load-serving substation transformers and low-voltage breakers, physically located within transmission switching stations, from transmission to distribution plant. These adjustments, and the methods used to reclassify these costs, are discussed in Section X – Transmission Cost of Service – of my testimony. The calculation to support the reclassification of plant investment is contained in my workpapers WP/II-B-1/04 through WP/II-B-1/10.

2. Distribution Plant

Q. HOW HAS ONCOR FUNCTIONALIZED ITS INVESTMENT IN DISTRIBUTION PLANT?

A. As described in Substantive Rule 25.341(5), distribution plant relates to those facilities operated below 60 kV. The Company's investment in distribution plant is recorded as EPIS in accounts 360 through 374. This investment includes the capitalized costs of tangible utility plant assets utilized for the distribution, transformation, and delivery of electric energy to the customer. Distribution systems physically begin at the high-side bushing of a distribution substation power transformer and terminate at the point of delivery. All costs recorded to distribution EPIS accounts and the corresponding amounts of accumulated depreciation have been directly assigned to the transmission, distribution, and metering FERC account and property unit numbers, or through the use of substation voltage codes that are maintained in the company's accounting system. The functionalized costs and functionalization methodology for each distribution plant account are contained in my Exhibit RKP-2 and workpapers WP/II-B-1-04 through WP/II-B-1-05 and WP/II-B-1-08 through WP/II-B-1-10.

Q. PLEASE DESCRIBE THE DISTRIBUTION PLANT ASSETS THAT HAVE BEEN ASSIGNED TO THE METERING BUSINESS FUNCTION?

A. The Company's investment in FERC Account 370, Meters and Metering Equipment, has been assigned to the metering business function ("MET"). Investment in this account that has been assigned to the metering business function represents the book value of both conventional and automated meters and current and potential transformers that are owned, operated, and maintained as of the test-year-end and are necessary for the measurement of electric energy consumed or demanded by customers.

3. Metering Investment

Q. PLEASE DESCRIBE HOW ONCOR HAS FUNCTIONALIZED ITS INVESTMENT IN METERING EQUIPMENT.

A. The Company classifies its existing investment in meters and related equipment into two categories. The first category relates to conventional metering equipment. The second category contains automated meters that are not includable in the advanced metering surcharge, in addition to other related communications and substation equipment necessary to provide automated metering services. The investment in automated meters is identified in the Company's accounting records separately from conventional meters. This is summarized in my workpaper WP/II-B-1/11.

Q. PLEASE DISCUSS THE EXISTING INVESTMENT IN TRADITIONAL CONVENTIONAL METERING DEVICES AND EQUIPMENT.

A. Amounts invested in metering devices and equipment are captured in FERC account 370, Meters. This is true of both conventional, automated, and advanced meters. The capitalized investment in meters includes the cost of the measurement device, related hardware, and attendant costs of installation. At the end of the test-year, the Company had a gross investment of $387,761,143 in conventional and automated meters not subject to the AMS Surcharge. The accumulated balance of depreciation recovered in rates related to this investment is $132,996,244, leaving a net plant investment of $254,764,899. When added to the net general plant assets assigned to traditional metering activities, total net plant in

service for the metering function totals $273,652,279. As summarized in RFP Schedules II-B-1 and II-B-5, these costs have been assigned to the metering business function in the RFP schedules.

4. General Plant and Intangible Assets

Q. PLEASE PROVIDE A DESCRIPTION OF GENERAL PLANT ASSETS.

A. General plant consists of the Company's investment in facilities and equipment that are needed to support utility operations and activities. Examples of general plant facilities and equipment include, but are not limited to, administrative offices, office furnishings, computers, vehicles, telecommunications, tools, shop, and stores handling equipment. General plant accounts are not "function-specific"; that is, the FERC account number provides no guidance as to the proper functionalization of this investment. Because all business functions of Oncor utilize these accounts, a detailed analysis is necessary to separate this investment between the Company's business functions.

Q. HOW HAS ONCOR FUNCTIONALIZED GENERAL PLANT ASSETS?

A. The Company's investment in general plant assets is maintained by the accounting organization within a continuing property records ("CPR") system. All Company assets recorded as general plant, including land, office buildings, office equipment, storeroom, tools and garage, and other miscellaneous equipment are individually identified within the CPR system by a specific location number or "location code." The costs of the land, building, structure improvements, and all building contents are recorded to the building location code number. These location codes enable the Company to identify all of its costs of general plant by name and physical location.

In order to directly assign the cost of owning and maintaining general plant property to the fullest extent possible, the Company conducts periodic facility utilization studies for each general plant office and storeroom location to determine actual office utilization by business function. Using the information obtained from these square-footage

occupancy studies, functionalized occupancy factors were developed for each office that is shared by more than one business function. These factors were then applied to the costs of depreciation, taxes, capital, and insurance relating to each shared facility. This process results in the recording of rental income and rental expense to the functional "owner" and "renter" of shared facilities. Rental income and expenses are recorded on the Company's books for shared investment relating to the costs recorded to the Company's land and structure general plant Accounts 388, 389, and 390. The results of the Company's functionalized square-footage occupancy study are contained in my workpaper WP/II-B-2/02/(a). The functionalized costs of the Company's general plant offices and related equipment based on the square-footage utilization study are contained in my workpaper WP/II-B-2/02.

Q. HOW HAS THE COMPANY ASSIGNED ITS INVESTMENT IN TELECOMMUNICATION EQUIPMENT, ACCOUNT NUMBER 397?

A. Investment in telecommunication equipment was directly assigned to the business function utilizing the equipment. The largest portion of investment in telecommunication assets consists of load monitoring equipment, microwave equipment (owned and utilized by both the transmission and distribution business functions), and fiber optic networks utilized by the distribution function. Common equipment used by both business functions at a facility, such as telephone equipment, has been allocated based on functionalized square footage usage.

Q. HOW HAS THE COMPANY ASSIGNED ITS INVESTMENT IN FERC ACCOUNT 392, TRANSPORTATION EQUIPMENT?

A. The Company's Fleet Management System maintains each unit of transportation equipment owned by Oncor by a functionalized Dept ID code that identifies the organization that utilizes the asset. These costs have, therefore, been directly assigned to the appropriate business function based on the accounting records of the Company. The

information used to functionalize transportation investment in FERC account 392 is contained in my workpaper WP/II-B-2/03.

Q. HOW HAS THE COMPANY ASSIGNED ITS INVESTMENT IN INTANGIBLE PLANT ASSETS, FERC ACCOUNT 303?

A. Oncor's investment in Account 303, Intangible Plant Assets, has been directly assigned to the transmission, distribution, metering, and transmission and distribution utility customer service business functions based on actual business utilization of the assets. A portion of the investment in this account is related to the Company's Distribution Information System, an automated distribution facilities mapping, facilities design, and cost estimating system, used for the maintenance of the distribution utility system infrastructure. The Company's transmission business unit owns and maintains the Transmission Integrated Maintenance system, an electronic system used for optimizing transmission maintenance activities. Additionally, the transmission business unit owns the Transmission Management System, a software application for monitoring, controlling, and operating transmission line and station assets. The investment in Oncor's electronic business systems as of June 30, 2010, is contained in the Company's RFP Schedule II-B-1 and is classified as transmission, distribution, metering, or transmission and distribution utility customer service investment, as appropriate. A listing of the Company's intangible plant along with other supporting information, by business function is contained in my workpapers WP/II-B-1/02 and WP/II-B-1/0 3.

B. Electric Plant Held for Future Use

Q. HOW HAS ONCOR FUNCTIONALIZED ITS INVESTMENT IN ELECTRIC PLANT HELD FOR FUTURE USE?

A. As discussed in the direct testimony of Company witness Mr. Speed, Electric Plant Held for Future Use ("EPHFU") reflects property acquired for later utility service. For example, land for distribution and transmission facilities frequently may be acquired years in advance of its actual

expected in-service date. Each asset classified as EPHFU was analyzed to determine the specific business requirement for the property. For example, if a tract of land held in fee was purchased for a distribution substation, the investment was allocated between the transmission and distribution business functions based on the original cost in distribution substation equipment (FERC account 362). The specific business requirement for all assets recorded in EPHFU can be determined in this manner, and my workpaper WP/II-B-6/02 contains the direct assignment of the Company's investment in EPHFU. These workpapers provide a listing of each asset, the associated cost, and the projected in-service date.

Q. IS ONCOR SEEKING RATE BASE TREATMENT FOR ALL EPHFU?

A. No. Pursuant to past Commission precedent, Oncor is only seeking to include those assets in EPHFU that are expected to be placed in service within a ten-year time frame. Accordingly, of the adjusted total $21,383,475 test-year-end balance of EPHFU, Oncor has included $18,557,440 in its rate base.

Q. HAVE ANY ADJUSTMENTS BEEN MADE TO THE COMPANY'S EPHFU FOR PURPOSES OF THIS FILING?

A. Yes. A post test year addition in the amount of $5,917,998 has been made to this account in order to correct an amount of electric plant in service recorded in error. This amount should have been originally recorded as future use properties. A corresponding reduction in the same amount has been made to electric plant in service. I discuss this adjustment later in my testimony in more detail.

C. Construction Work in Progress

Q. HAS ONCOR INCLUDED CONSTRUCTION WORK IN PROGRESS IN ITS TEST-YEAR LEVEL OF INVESTED CAPITAL?

A. No. Pursuant to PURA § 36.054, the inclusion of Construction Work In Progress ("CWIP") in a utility's rate base is an exceptional form of rate

relief. Oncor is not requesting inclusion of the test-year-end CWIP balance of $174,006,263 in its rate base.

V. DESCRIPTION AND FUNCTIONALIZATION OF NON-TAX REGULATORY ASSETS AND LIABILITIES

Q. PLEASE PROVIDE A DESCRIPTION OF WHAT GIVES RISE TO REGULATORY ASSETS AND LIABILITIES.

A. In 1982, FASB issued SFAS 71 - *Accounting for the Effects of Certain Types of Regulation*, which applies to utilities with cost-based rates that are established by the regulator and charged to, and collected from, customers. Regulatory assets and regulatory liabilities are, as their name implies, creations of regulation. In accordance with the requirements of SFAS 71, the Company defers or capitalizes the recognition of certain costs (regulatory assets) and certain obligations (regulatory liabilities) that, as a result of the ratemaking process, have probable corresponding increases or decreases in future revenues. I discuss each non-tax related regulatory asset recorded on the Company's balance sheet as of the end of the test-year in the sections that follow.

Q. WHAT IS THE BALANCE OF REGULATORY ASSETS AND LIABILITIES THAT WAS REPORTED ON THE COMPANY'S JUNE 30, 2010 SEC FORM 10-Q?

A. The Company reported $1.707 billion of net regulatory assets in its June 30, 2010 SEC Form 10-Q. However, as shown on my Exhibit RKP-3, more than one-third of these costs are not related to the regulated transmission and distribution activities of the Company as discussed below. Of the total net regulatory assets, $66 million is related to federal income taxes. As discussed in the testimony of Ms. Burns, tax-related adjustments totaling $53,698,090 result in a tax-related regulatory asset includable in rate base of $12,718,382. For the remaining non-tax related amounts, I have made several adjustments to determine the appropriate level of net regulatory assets to be included in the Company's rate base.

As shown on RFP Schedule II-B-12, these adjustments yield a net $405 million that is includable in rate base.

A. Securities Reacquisition

Q. PLEASE DESCRIBE THE SECURITIES REACQUISITION COSTS REPORTED AS A REGULATORY ASSET IN THE COMPANY'S JUNE 30, 2010 SEC FORM 10-Q.

A. Securities reacquisition costs are the accumulated differences between the amounts paid to redeem higher cost debt and the net book value of the related issues redeemed. The capitalized investment, accounted for as a regulatory asset, represents an investment made by the Company to secure a lower overall debt cost for the benefit of its customers. The Company classifies securities reacquisition costs into two categories: (1) September 1999 and prior debt reacquisition costs; and (2) post-September 1999 debt reacquisition costs.

Q. WHY HAS THE COMPANY SEPARATELY IDENTIFIED AND ACCOUNTED FOR SECURITIES REACQUISITION COSTS BETWEEN THE PRE- AND POST-SEPTEMBER 1999 TIME PERIODS?

A. In Docket No. 22350, the Commission approved recovery of the Company's historical balance of unamortized transmission and distribution debt reacquisition costs as of September 1999, over a life of 15.33 years. The Commission correspondingly approved a return on the unrecovered (*i.e.*, unamortized) portion of this investment at a pre-tax rate of 7.5 percent. As of June 30, 2010, the unamortized balance of these costs totals $58,664,194. The Company records annual amortization expense in an amount to ratably reduce the balance, consistent with the Final Order in Docket No. 22350. As shown in my workpaper WP/II-E-4.1, the amortization expense combined with the allowed return on the unamortized balance totals $10,998,226 annually.

Q. HOW ARE POST-SEPTEMBER 1999 DEBT REACQUISITION COSTS AMORTIZED FOR PURPOSES OF THIS FILING?

A. The June 30, 2010 balance of post-September 1999 debt reacquisition costs totals $26,080,849, which is being amortized as a component of interest expense over the remaining life of the reacquired debt issues. This practice is consistent with the application of US GAAP and with prior regulatory treatment of these costs in Docket Nos. 9300, 11735, and 35717.

Q. DOES AMORTIZING SECURITIES REACQUISITION COSTS AS A COMPONENT OF INTEREST EXPENSE PROVIDE ONCOR WITH AN EQUITY RETURN ON THE UNAMORTIZED INVESTMENT?

A. No. This regulatory practice allows these debt-related costs to be recovered as a component of the weighted average cost of debt. Further, as can be seen on my Exhibit RKP-3 and RFP Schedule II-B-12, the unamortized balance of these costs has not been included in the Company's rate base; therefore, no equity return component is included in the Company's requested revenue requirement with respect to the balance in debt reacquisition costs.

B. Self-Insurance Reserve

Q. DOES ONCOR UTILIZE A SELF-INSURANCE RESERVE TO PROVIDE FOR LIABILITY AND PROPERTY LOSSESS?

A. Yes. The Company has a long history of utilizing an internal self insurance reserve to cover major losses. Oncor's self-insurance plan and threshold levels were found to have been in the public interest and a lower cost alternative to commercial insurance in the Company's most recent general rate case, Docket No. 35717. The direct testimony of Company witness Ms. Clutter provides a discussion of the self-insurance reserve and the related reserve balances. Additionally, Ms. Clutter provides the requested rate making treatment for both the previously reviewed and un-reviewed self-insurance reserve losses that have occurred since the Company's last rate case.

C. Securitization Regulatory Assets

Q. PLEASE EXPLAIN THE SECURITIZATION REGULATORY ASSETS THAT WERE REPORTED IN THE COMPANY'S JUNE 30, 2010 SEC FORM 10-Q.

A. Securitization regulatory assets relate to the transition securitization bonds issued by Oncor TBC in August 2003 and June 2004. As previously mentioned, I have made an adjustment to remove the $706,383,314 in generation-related regulatory assets related to securitization transition bonds from the Company's filing. As shown on RFP Schedule II-B-12, the adjustment includes both the securitized (intangible transition property) and non-securitized portions of these costs. In essence, pursuant to PURA Subchapter G, securitization-related costs are recovered through separate transition charges; therefore, it is not necessary to consider these costs in the determination of base rate revenues for the Company.

D. Asset Retirement Obligation

Q. PLEASE DESCRIBE THE COSTS RELATED TO NUCLEAR DECOMMISSIONING THAT WERE REPORTED AS A REGULATORY LIABILITY IN THE COMPANY'S JUNE 30, 2010 SEC FORM 10-Q.

A. As previously discussed, SFAS No. 143 addresses liabilities resulting from a legal or contractual obligation to retire or decommission plant assets. Such ARO work activities typically include dismantling and disposal of assets at the end of a plant's useful service life. Luminant has a legal obligation to decommission the Comanche Peak Steam Electric Station ("Comanche Peak") under Nuclear Regulatory Commission regulations. Pursuant to PURA § 39.205, which provides for recovery of the Comanche Peak nuclear decommissioning costs from ratepayers through non-bypassable distribution wires charges to REPs, such costs are collected through Oncor's rates and remitted to Luminant for deposit in nuclear decommissioning fund trust accounts to provide for future decommissioning and plant dismantling requirements.

The accounting standards for an ARO for regulated entities rely on FASB Statement No. 71 and the intent of the regulator. A regulated entity

records a regulatory asset or regulatory liability for periodic changes in the ARO rather than as a charge against earnings. Accordingly, Oncor carries a regulatory asset or regulatory liability on its books until decommissioning activities commence and a regulatory proceeding is conducted to examine the ending balance. At that time, any balance in an ARO regulatory asset or ARO regulatory liability conceptually represents the over/under-recovered amount of nuclear decommissioning costs received from ratepayers. Since the regulatory asset relates solely to generation assets, Oncor has not included any costs relating to this regulatory asset within this filing.

In addition, as I previously discussed, Oncor's ARO related to assets containing PCBs are considered to be immaterial and appropriately recovered through depreciation charges. Accordingly, there is no accounting for these AROs as regulatory assets or liabilities for purposes of this filing.

E. Employee Retirement Costs

Q. PLEASE EXPLAIN THE AMOUNTS REPORTED AS EMPLOYEE RETIREMENT COSTS IN THE LISTING OF REGULATORY ASSETS AND LIABILITIES REPORTED IN THE COMPANY'S JUNE 30, 2010 SEC FORM 10-Q.

A. The amount reported as Employee Retirement Costs in Oncor's June 30, 2010 SEC Form 10-Q represents three major components, the largest of which arose from the adoption of SFAS 158 - *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans*, which requires companies to report the funded status of post-employment plans on their balance sheets. Of the total $869,437,661 in regulatory assets related to employee retirement costs, $741,152,055 relates to the adoption of SFAS 158, *Employers' Accounting for Defined Benefit Pension and Other Retirement Plans.* This statement requires recognition of the over-or under-funded status of a defined benefit postretirement plan as an asset or liability, and to recognize changes in the funded status in the year in

which the change occurs as a charge to other comprehensive income. Because Oncor determines its postretirement benefits allowance for its cost-based rates on the basis of SFAS No. 87 and SFAS No. 106, a regulatory asset or liability is charged for the amount that would have otherwise been charged to other comprehensive income. Since this SFAS 158–related regulatory asset or liability is for measurement purposes only, it has not been amortized or otherwise included for purposes of this filing.

The remaining two components of this regulatory asset arose from the application of PURA § 36.065, which removes the volatility in an electric utility's recognition of expenses for pension and other post-employment benefit ("OPEB") plans. Essentially, the legislation provides that the difference between an electric utility's actual expenses for pension and OPEB costs and the amounts reflected in existing rates is deferred as a regulatory asset or liability. At test-year end, Oncor had regulatory asset balances of $72,909,900 of deferred pension costs and $55,375,706 of deferred OPEB costs. These amounts represent the unrecovered costs in excess of the amounts recognized as O&M expense from January 1, 2005 through June 30, 2010.

Portions of the actuarially-determined pension and OPEB benefit costs determined under application of SFAS 87 and SFAS 106, respectively have been capitalized as utility plant or other assets, pursuant to the FERC Uniform System of Accounts (see Electric Plant Instructions No. 3A(2) – Components of Construction Costs.

F. Energy Efficiency Performance Bonus

Q. PLEASE DESCRIBE THE ENERGY EFFICIENCY PERFORMANCE BONUS THAT IS REPORTED AS A REGULATORY ASSET IN THE COMPANY'S JUNE 30, 2010 SEC FORM 10-Q.

A. PUCT Substantive Rule 25.181(f)(11) entitles a utility to an energy efficiency performance bonus if the utility exceeds its demand reduction goals that are established by the Commission. Oncor's unamortized balance in the 2009 Energy Efficiency Performance Bonus is in the

amount of $4,654,043 and is accounted for as a regulatory asset on the Company's books.

Q. HAVE YOU INCLUDED AMORTIZATION OF THIS REGULATORY ASSET IN THE COMPANY'S COSTS OR AS A COMPONENT OF RATE BASE FOR PURPOSES OF THIS FILING?

A. No. The regulatory asset is amortized over a 12-month period with a corresponding reduction to Energy Efficiency revenues. Additionally, I have not included the balance in the regulatory asset as a rate base item. PUCT Substantive Rule 25.181(f)(11)(h)(6) states that energy efficiency performance bonus amounts shall not be included in a utility's revenues for the purpose of establishing rates or Commission assessment of its earnings.

G. Deferred Conventional Meter Depreciation

Q. DESCRIBE THE DEFERRED CONVENTIONAL METER DEPRECIATION COSTS REPORTED AS A REGULATORY ASSET IN THE COMPANY'S JUNE 30, 2010 SEC FORM 10-Q.

A. Under the deployment plan approved in Docket No. 35718, Oncor is scheduled to replace virtually all of its existing conventional and automated meters with advanced digital meters by December 2012. For financial accounting purposes, depreciation of conventional and automated meters are recorded on a straight-line basis over a three-year life through December 2012, which corresponds to the remaining life of the assets. For rate-making purposes, however, the Commission approved an 11-year amortization period for conventional and automated meters in Docket No. 35717 (FOF No. 127). As a result of the difference between the 3-year straight-line book depreciation method and the 11-year amortization period for ratemaking purposes, Oncor must record a regulatory asset representing "deferred depreciation" for external reporting purposes. For ratemaking purposes, this balance represents the amount of conventional meter investment that Oncor has depreciated for book purposes, but has not recovered in rates due to the longer 11-year life that

was established by the Commission. The balance in this unrecovered "deferred depreciation" regulatory asset account should be approximately $0 at the end of the 11-year amortization period, assuming the estimated net salvage amount that is included in amortization and depreciation expense approximates the actual costs that will be incurred to remove all conventional and automated meters. If a positive balance remains in the account after all conventional and automated meters are removed and replaced, then the net salvage amounts recovered in rates were less than the actual amounts incurred. Correspondingly, if a credit balance in this account exists after all conventional and automated meters have been replaced, then the net salvage costs recovered in rates exceeded the actual amounts incurred. The balance in this account, if any, would then be considered in a future rate case and either transferred to the accumulated depreciation reserve or collected from or refunded to the rate payer as the Commission deems appropriate.

Q. ARE THERE ANY ADJUSTMENTS REQUIRED TO THE COMPANY'S TEST YEAR COSTS AS A RESULT OF DEFERRED DEPRECIATION?

A. Yes. Due to the investment in conventional and automated meters being depreciated over 3-years for book purposes as opposed to the 11-year life for rate-making, the balance in Utility Plant in Service is understated for rate-making purposes. In other words, a three year depreciation life assumes the utility has recovered through rates its investment over that three year period when, in fact, Oncor will recover that investment over 11 years. In order to properly reflect the correct amount of rate base investment for these assets, so that Oncor can recover the return on its investment that it has not yet actually recovered through rates, the Commission must either adjust Oncor's net plant investment through a reduction in the depreciation reserve for the amount of the difference in these two depreciation methods or include the balance in the deferred depreciation regulatory asset as a component of rate base. Both methods produce the same result for rate-making purposes. I have elected to

reduce (debit) the depreciation reserve by the amount of the regulatory asset balance of $36,972,373 in order to reflect the correct amount of unrecovered conventional meter net plant investment that existed at the end of the test year.

H. Other Regulatory Assets and Liabilities

Q. PLEASE DESCRIBE THE REMAINING REGULATORY ASSETS AND LIABILITIES PRESENTED IN THE COMPANY'S JUNE 30, 2010 SEC FORM 10-Q.

A. As shown in my Exhibit RKP-3, the remaining non-tax related regulatory asset balances at the test-year end reflect unrecovered rate case expenses and consultant costs. Oncor has existing balances totaling $6,558,315 in deferred costs related to prior rate review activities and $76,727 for this proceeding. In addition, Company witness Mr. Schmidt has provided me with a known and measurable adjustment of $9,673,273 for the rate case expenses arising from this proceeding and $1,942,925 in Docket No. 35717 rate case expenses that were incurred subsequent to the cut-off date for expenses reviewed by the Commission for that case. The Order in Docket No. 36530 specifically authorizes the deferral of these costs for subsequent Commission review. As I discuss later, Oncor is requesting that these costs be recovered over a three-year amortization period.

The remainder of the net non-tax related balance reflects a regulatory liability of $12,222,665 for unspent energy efficiency costs. As ordered in Docket No. 36958, Oncor collected $53,578,615 in revenues during the test-year to fund energy efficiency program costs. At the end of the test year the Company had recorded $12,222,665 more in revenues than it had expended on energy efficiency programs. As described in the testimony of Company witness Mr. Stockard, it is expected that this unspent amount will be used on allowable programs prior to implementation of rates from this proceeding.

I. Regulatory Assets in Rate Base

Q. IS ONCOR REQUESTING INCLUSION OF ANY OF ITS NON-TAX RELATED REGULATORY ASSETS AND LIABILITIES IN RATE BASE?

A. Yes. As detailed above and as summarized in my Exhibit RKP-3 (and shown on RFP Schedule II-B-12), the Company has included $392,093,894 of "non-tax" net regulatory assets in rate base. As allowed by PURA § 36.064(d)(2), I have included the total balance of unrecovered self-insurance losses from the Company's distribution operations, offset by the true reserve balance for self-insurance for the transmission function. Further, as allowed by PURA § 36.065(d)(3), I have included the total balance of deferred pension and OPEB costs (excluding the impact of SFAS 158). As previously discussed, I have reclassified the balance of deferred conventional meter depreciation to the meter-related accumulated depreciation reserve, which provides rate base treatment for this amount. Finally, I have included the balance in rate case expenses for rate base treatment.

VI. WORKING CAPITAL AND OTHER RATE BASE ITEMS

Q. DO YOU SPONSOR ANY OTHER RATE BASE ITEMS THAT ARE INCLUDED IN THE COMPANY'S FILING?

A. Yes. Together with the regulatory assets described above, I also sponsor the portions of the RFP summarizing the Company's requested balances of material and supplies inventories, prepayments, and customer deposits. These amounts are presented in RFP Schedules II-B-8, II-B-10, and II-B-11, respectively.

A. Materials and Supplies

Q. PLEASE DESCRIBE THE RATE BASE ITEM IDENTIFIED AS MATERIALS AND SUPPLIES.

A. At the end of the test-year, Oncor had a total balance of $93,143,116 in materials and supplies ("M&S") inventory costs. This amount includes both (1) the direct costs of M&S purchased for use in utility construction and operation and maintenance activities and (2) undistributed stores expenses, which reflect the costs of supervision, labor, and expenses

incurred in the operation of general storerooms, including purchasing, storage, handling, distribution, and applicable sales and use taxes.

Schedule II-B-8 calculates a 13-month average of the costs of M&S to be used for determination of the balance to be included in the utility's rate base. As shown on this schedule, the average of the 13-month inventory balances for Oncor is $84,856,248.

B. Prepayments

Q. PLEASE DISCUSS WHAT GIVES RISE TO THE PREPAID AMOUNTS REPORTED ON RFP SCHEDULE II-B-10.

A. In accordance with US GAAP, a prepayment arises when a cost is funded by the payment of an amount that is greater than the amount that is initially expensed on the books. Simply stated, prepayments are "upfront" payments for costs recognized over future periods. Prepayments are recorded in FERC account 165 and amortized to the appropriate O&M or tax account on a systematic basis over the periods to which the cost applies.

Q. PLEASE IDENTIFY THE COMPANY'S COSTS THAT ARE PREPAID AND INCLUDED IN THE COMPANY'S FILING.

A. Oncor prepays its costs of external insurance programs and certain municipal franchise fees, vendor fees, industry membership dues, and software license and maintenance agreements.

Q. HOW HAS THE COMPANY FUNCTIONALIZED PREPAYMENTS?

A. I first identified the cost of each prepaid asset on the books and records of the Company at the test-year end and, consistent with RFP Schedule II-B-10 instructions, adjusted the amounts to equal a 13-month average. I then directly assigned the cost of each prepaid asset where possible, or allocated the cost to the appropriate business functions consistent with RFP Schedule II-B-10 instructions. I will discuss the nature of each prepaid amount included in the Company's filing in the sections that follow.

1. Prepaid Insurance

Q. PLEASE DESCRIBE THE FUNCTIONALIZATION OF THE COMPANY'S PREPAID INSURANCE COSTS.

A. The 13-month average balance in prepaid insurance paid to external insurance providers has been directly assigned to the appropriate functions on the same basis as the underlying annual cost of insurance. The calculations to support the functionalized cost of prepaid insurance are contained in my workpaper WP/II-B-10.

2. Prepaid Membership Dues

Q. PLEASE DESCRIBE THE COMPANY'S PREPAID MEMBERSHIP DUES.

A. The Company prepays membership dues to certain electric industry associations. These costs have been functionalized based on the use of the payroll factors prescribed in RFP Schedule II-F pursuant to RFP General Instruction No. 11(c). Supporting documents describing these costs and their respective functionalization are contained in my workpaper WP/II-B-10.

3. Prepaid Municipal Franchise Fees

Q. PLEASE DESCRIBE THE COMPANY'S PREPAID MUNICIPAL FRANCHISE FEES.

A. Prepaid municipal franchise fees, which are actually rental payments for use of public rights-of-way, are paid on a cents per kWh basis on all retail kWh sales within municipalities served by the Company. I have functionalized these payments as a component of the distribution business function since it is based on distribution delivered volumes.

4. License and Maintenance Agreements-Software

Q. PLEASE DESCRIBE PREPAID SOFTWARE LICENSE AND MAINTENANCE AGREMENTS AND HOW THEY ARE FUNCTIONALIZED.

A. Oncor prepays certain software license and maintenance agreements that allow for the use of software over a multi-year period and that provide for software updates and functional enhancements over multiple years. The

prepaid amounts have been directly assigned to the business function that utilizes the related software applications.

5. Adjustments to Prepayments

Q. ARE THERE ANY ADJUSTMENTS THAT ARE REQUIRED TO TEST YEAR PREPAID AMOUNTS IN ORDER TO REFLECT RECURRING BUSINESS OPERATIONS?

A. Yes. As discussed in the direct testimony of Company witnesses Messrs. Mr. Smith and Mr. Austin, Oncor terminated its business support services agreement with CGE. Oncor previously prepaid portions of the annual costs of these services under the terms of the Service Agreement. Due to termination of the contract, I have removed the amounts relating to this contract from prepayment Account No. 165. Additionally, I have adjusted (removed) the 13-month average of prepaids related to CREZ projects in the amount of $1,768,384, as this amount has been determined to be a non-recurring prepayment.

C. Cash Working Capital

Q. PLEASE DESCRIBE THE LEVEL OF CASH WORKING CAPITAL THAT ONCOR IS INCLUDING IN ITS DETERMINATION OF RATE BASE.

A. As required by Substantive Rule 25.231(c)(2)(B)(iii)(IV), the Company has conducted a lead-lag study to determine its cash working capital allowance. As described in his direct testimony, Company witness Mr. Ledbetter has provided me with the amount of cash working capital to be included in this filing. As shown on Schedule II-B (Summary of Rate Base) and as detailed on Schedule II-B-9, Oncor's cash working capital allowance decreases the total rate base by $6,577,146.

D. Accumulated Deferred Federal Income Taxes

Q. PLEASE DESCRIBE THE LEVEL OF ACCUMULATED DEFERRED INCOME TAXES REFLECTED IN THE COMPANY'S DETERMINATION OF NET INVESTED CAPITAL.

A. The accumulated reserve for deferred federal income taxes ("ADFIT") is included in rate base pursuant to Substantive Rule 25.231(c)(2)(C)(i) and

represents the largest deduction to Oncor's rate base. As described in her direct testimony, Company witness Ms. Burns has provided me with the net balance of ADFIT assets and liabilities related to the Company's rate base. This net amount represents a source of cost-free capital that largely arises from differences between amounts recognized for book depreciation and amortization and the amounts that have been allowed as deductions for federal income tax calculations. As summarized on Schedule II-B, the adjusted balance of ADFIT was $1,542,218,737 at the end of the test-year.

E. Other Rate Base Items

Q. PLEASE DISCUSS THE OTHER RATE BASE ITEMS INCLUDED ON RFP SCHEDULE II-B-11.

A. RFP Schedule II-B-11 reports $9,736,620 of deposits from REPs and other entities that are included on the Company's consolidated balance sheet at June 30, 2010. However, of this amount, $5,002,247 has been eliminated as it relates solely to deposits collected from REPs by Oncor TBC in accordance with Section III(C)58(a) of the Company's Financing Order issued in Docket No. 25230. This amount of Oncor TBC deposits is held by the Bond Company's Trustee (Bank of New York) and is not available for use in Oncor's utility operations. The remaining customer deposit balance of $4,734,372 primarily relates to deposits collected from merchant generators for interconnection facilities agreements and has been included as a reduction to the Company's requested rate base total. The corresponding amounts of interest expense that Oncor pays on these deposits has been included as expense on Schedule II-E-4 of the Company's RFP.

VII. OTHER REVENUES

Q. WHAT IS THE TOTAL AMOUNT OF OTHER REVENUES INCLUDED IN THE COMPANY'S FILING?

A. As shown on RFP Schedule II-E-5, Oncor recorded $79,602,485 of other revenues during the test-year. Based on adjustments I discuss below,

$74,298,309 has been credited against the Company's cost of service consistent with the instructions for RFP Schedule II-E-5. In the sections that follow, I will discuss the functionalized amounts and related FERC accounts summarizing these sources of other income.

A. Other Revenue Adjustments

Q. PLEASE DESCRIBE THE $14,561,779 AMOUNT RECORDED TO FERC ACCOUNT 442 AS POWER FACTOR.

A. Company witness Mr. Sherburne has provided me with a distribution revenue (credit) adjustment of $14,561,779, which represents a recurring level of Power Factor revenues that will be collected from retail customers who fail to maintain the power factor levels necessary for the efficient operation of delivery system facilities. These revenues serve to offset the incremental costs of operating and maintaining the distribution system in a less than optimal manner. Please reference Mr. Sherburne's workpaper WP/IV-J-6/1.

B. Forfeited Discounts

Q. PLEASE DESCRIBE THE AMOUNTS RECORDED IN FERC ACCOUNT 450, FORFEITED DISCOUNTS.

A. The Company utilizes FERC account 450 to record the revenues recognized by the distribution function for additional charges (revenues) imposed on REPs for failure to pay utility billings on or before specified due dates. During the test-year, the Company accrued $520,721 of revenues for these payments. All of these amounts are credited to the distribution business function.

C. Miscellaneous Service Revenues

Q. PLEASE DESCRIBE THE MISCELLANEOUS SERVICE REVENUES RECORDED IN FERC ACCOUNT 451.

A. As detailed on Schedule II-E-5, a total amount of $963,471 was recorded to FERC account 451, Miscellaneous Service Revenues during the test-year. This amount reflects revenues realized from customers to: (1) reserve MVA capacity on alternate distribution feeders and related

transformers; (2) provide dual feed service to end-use customers; (3) collect for customer switching (in dually-certificated areas, not between REPs); and (4) other miscellaneous services. All of these amounts are credited to the distribution business function.

Q. PLEASE DESCRIBE THE DISCRETIONARY REVENUE AMOUNTS RECORDED IN FERC ACCOUNT 451.

A. As discussed in Company witness Mr. Sherburne's direct testimony, discretionary services are customer-specific services for which costs are recovered through separately priced rates. Distribution discretionary services costs are incurred, billed, and collected by the distribution business unit. Mr. Sherburne has provided me with an adjustment to discretionary revenues in the amount of ($22,026,161). When applied against the test-year level, the remaining adjusted balance of discretionary revenues is $22,094.744, which has been credited against the distribution revenue requirement. Please refer to Mr. Sherburne's workpaper WP/IV-J-2/1.

Q. PLEASE DESCRIBE THE AMOUNT OF $21,973,750 OF REVENUES RECORDED TO FERC ACCOUNT 454 – RENT FROM UTILITY PROPERTY.

A. During the test-year, the Company's distribution business unit recorded rental income of $9,327,485 for the use of distribution facilities by telecommunication and cable television providers and property rental to third parties. The Company's transmission business unit recorded $12,646,265 of rental income for: (1) antenna leases on transmission structures; (2) use of transmission right-of-ways by third parties; and (3) use of Company facilities by cable television providers. Please refer to my workpaper WP/II-E-5/01. I have included a known and measurable adjustment to amounts collected related to antenna leases on transmission structures; in the amount of $429,623 associated with annual rental escalators. Please refer to my workpaper WP/II-E-5/02.

As mentioned previously, there are rental agreements between Oncor's distribution and transmission business functions involving shared office facilities that need to be reflected within the Company's cost of service in order to properly assign these costs between Oncor's retail and wholesale customers. During the test-year, the transmission business unit received $112,127 in shared building and facilities rental revenues from the distribution business unit. The distribution business unit received rental revenues of $981,675 from the transmission business unit. Please reference my workpaper WP/II-E-5/01. I have made an adjustment for these amounts since these costs were eliminated on the Company's financial statements as an inter-company transaction. I have also included a related adjustment to reflect property rents that were not recorded in the test-year for the furnishings and other building contents for these rented properties. This results in additional revenues for the transmission and distribution business units of $167,922 and $1,051,482 respectively, as shown in my workpaper WP/II-E-5/03.

D. Other Electric Revenues

Q. PLEASE DESCRIBE THE AMOUNTS RECORDED AS OTHER ELECTRIC REVENUES IN FERC ACCOUNT 456.

A. Revenues recorded in FERC account 456, Other Electric Revenues totaled $14,349,603 including inter-company billings during the test-year as detailed in WP/II-E-5/01. Of this amount, $4,443,720 was recorded by the Company's transmission business unit for services provided to Luminant and other third parties for the maintenance of generation unit main transformers, transmission engineering services, and other transmission-related maintenance activities. This $4,443,720 of other revenues has been credited to the Company's revenue requirement.

Additionally, revenues for processing fees, project costing and pro-rata services and facilities fees in the amount of $4,456,181 were recorded by the Company. I have credited the amount of $71,581 to the

distribution function and $4,384,600 to the transmission function based on the business function responsible for the provision of the services.

An amount of $2,735,580 was recorded to the Other Electric Revenues account related to federal income tax gross-up amounts applied to contributions in aid of construction ("CIAC"). Such amounts are charged to customers requesting facilities involving a CIAC in order to recover tax liabilities arising from these billings. Since the actual construction costs, related taxes, and customer payments involving a CIAC are collected directly from the customer requesting a CIAC-related service, these revenues, costs, and associated taxes are properly eliminated for ratemaking purposes. The adjustments to eliminate CIAC tax gross-up revenues for the transmission and distribution business units are $74,692 and $2,660,888 respectively.

The transmission business unit recorded $388,157 of other electric revenues for transactions arising from its FERC tariffs associated with exports of energy out of ERCOT and for the provision of reserve capacity services to third parties. These amounts have been credited against the Company's transmission cost of service.

Q. ARE THERE ANY FURTHER ADJUSTMENTS NEEDED TO PROPERLY REFLECT THE AMOUNT OF OTHER ELECTRIC REVENUES?

A. Yes. During the test year an amount of $1,500,075 of inter-company revenues was recorded by the transmission business function for load dispatching services. Similar to the previous adjustments involving inter-company elimination of costs, I have increased other revenues by this amount for the transmission business function (FERC Account 456). I have eliminated $825,888 of Other Electric Revenues recorded by the distribution function relating to administrative services provided to Oncor TBC. Finally, I have increased Other Electric Revenues by $652,881. This amount represents interest revenues associated with a substation project, where the amount was incorrectly recorded as a Contribution in Aid of Construction.

In summary, $25,594,919 of other electric revenues has been credited to the transmission business function and the amount of $48,703,390 has been credited to the distribution business function.

Please refer to Schedule II-E-5, Other Revenues, and workpaper WP/II-E-01 for amounts referenced above.

VIII. ONCOR AFFILIATE TRANSACTIONS

Q. DOES ONCOR PROVIDE SHARED SERVICES TO ANY OF ITS UNREGULATED AFFILIATES?

A. Yes. During the test-year, certain employees of Oncor conducted environmental and administrative services on its own behalf and, to some extent, for Luminant and EFH Corp.

Pursuant to Substantive Rule 25.272(e), Oncor fully allocates its costs to conduct such activities. The costs of environmental services are shared by Oncor and its affiliates based on recorded time dedicated to each business entity. Administrative services related to fleet are allocated based on fleet expense ratio.

During the test year, Oncor billed a total of $642,678 to its affiliates for the provision of shared services. The amounts collected have been credited to the appropriate account to reimburse Oncor for its fully allocated costs of sharing these services. Please reference my workpaper WP/Shared Services for a listing of each service shared during the test year and the related amount of billings by each affiliated company. For discussion on shared services provided to Oncor, please see the direct testimony of Company witness Mr. Ragland.

Q. ARE YOU TESTIFYING TO ANY OTHER AFFILATE RELATIONSHIPS INVOLVING EFH AND ONCOR?

A. Yes. Oncor is billed for certain accounting services that are provided by EFH Corporate Services Company ("EFH Corporate Services") and are essential to the preparation and filing of Oncor's consolidated financial statements with the United States Securities and Exchange Commission ("SEC").

Q. PLEASE DESCRIBE THE ACCOUNTING SERVICES PROVIDED TO ONCOR BY EFH CORPORATE SERVICES.

A. The EFH Corporate Services Controller's Group is a centralized organization that provides certain accounting and reporting services to the subsidiaries of EFH Corp. The principal activities of the EFH Corporate Services Controller's organization include financial reporting, consolidations, income tax accounting, and internal controls monitoring for EFH Corp.

The financial reporting group prepares reports submitted to the SEC. These reports currently include Forms 10-K (annual report) and 10-Q (quarterly report) for Oncor Electric Delivery Company LLC and Oncor Electric Delivery Transition Bond Company LLC. This group also prepares financial statements to satisfy requirements of financing arrangements, as well as reports submitted to the Department of Labor pertaining to employee benefit plans provided to employees of all EFH Corp. subsidiaries. To prepare the reports, the group relies on information prepared by personnel in Oncor and information prepared by the consolidations group within the Corporate Controller's organization.

The consolidations group manages the monthly accounting close processes for the Company, records elimination entries to prepare consolidated financial statements, records entries related to corporate center activities, prepares information to support the financial reporting group within the Corporate Controller's organization, prepares financial reports for use internally by senior management, and prepares the allocation of EFH Corporate Services costs to the business units.

The income tax accounting group works with the EFH Corp. tax department to record income tax entries for the Company's business units. The group reconciles all deferred income tax asset and liability accounts for the Company. The group also prepares information necessary to the financial reporting group within the Corporate Controller's organization.

The internal controls monitoring group coordinates internal control monitoring and testing activities as required by the Sarbanes-Oxley legislation. The group oversees all internal control matters related to accounting processes and financial reporting and assists business units in the identification and remediation of any control weaknesses.

Q. ARE ANY OF THE ACCOUNTING ACTIVITIES PERFORMED BY THE EFH CORPORATE SERVICES CONTROLLER GROUP DUPLICATIVE OF ACTIVITIES PERFORMED BY ONCOR'S ACCOUNTING EMPLOYEES?

A. No. None of these activities are duplicative of activities performed by Oncor Accounting employees.

Q. ARE THE SERVICES PROVIDED BY THE EFH CORPORATE CONTROLLER'S ORGANIZATION NECESSARY TO ONCOR'S BUSINESS?

A. Yes. The preparation and filing of SEC reports, recording of federal income taxes, consolidations, and testing activities required by Sarbanes-Oxley legislation are all necessary accounting activities required to report the results of Oncor's operations on a monthly, quarterly, and annual basis.

IX. OUTSOURCED ACCOUNTING SERVICES

Q. ONCOR IS ALSO BILLED FOR ACCOUNTING SERVICES BY CAPGEMINI AMERICA (CGA). PLEASE DESCRIBE THE ACCOUNTING SERVICES THAT CGA PROVIDES.

A. CGA provides accounting services to Oncor for the processing of third party invoices for payment, miscellaneous accounts receivable, payroll accounting, property and inventory accounting, corporate accounting functions for employee benefit costs, general ledger and subsidiary systems maintenance and security. These services are billed per the terms of the contract with CGA and are generally high volume transactional and reconciliation activities. None of these activities

performed by CGA are duplicative of activities performed by Oncor Accounting employees.

X. ADJUSTMENTS TO COST OF SERVICE

Q. PLEASE PROVIDE AN OVERVIEW OF THE ADJUSTMENTS THAT ONCOR HAS MADE TO ITS COST OF SERVICE.

A. Oncor is proposing certain adjustments that impact all elements of its cost of service. Together with the previous rate base adjustments that I have discussed, the following adjustments involve all operating expense categories of the Company's income statement. The largest adjustments reflect costs that will be recorded as O&M expense and depreciation and amortization charges. Smaller adjustments will also impact the Company's requested level of taxes other than income taxes. Finally, certain rate base adjustments will also impact the normalized income tax requirement arising from the requested cost of service. In the following discussion, where applicable, I reference other Company witnesses sponsoring the adjustments.

A. Adjustments to Annualize or Remove Certain Costs Resulting From Docket No. 35717 Implementation

Q. PLEASE DESCRIBE THE REASONS FOR THE ADJUSTMENTS THAT YOU HAVE MADE RELATED TO THE ANNUALIZATION OF CERTAIN COSTS THAT WERE APPROVED IN THE COMPANY'S LAST RATE CASE, DOCKET NO. 35717.

A. In August 2009, the Commission issued a Final Order with respect to Oncor's rate review in Docket No. 35717. Correspondingly, Oncor implemented new rates on September 17, 2009. Oncor's test year in this case covers the 12-month period beginning on July 1, 2009, and ending on June 30, 2010. Therefore, certain accounting accruals and amortizations that were approved in Docket No. 35717 are not fully reflected within the June 30, 2010 test year amounts. Therefore, these adjustments are not proposed or requested increases or decreases to the Company's revenue requirement, but rather are adjustments necessary to

reflect certain costs for a full 12 months that were previously ordered by the Commission. I will discuss each of the required adjustments and the related ordering language contained in the Docket No. 35717 Final Order in the sections that follow.

1. Approved Historic Self Insurance Reserve Losses

Q. PLEASE DESCRIBE THE ACCOUNTING ADJUSTMENT RELATING TO THE RECOVERY OF SELF INSURANCE RESERVE LOSSES AS APPROVED IN DOCKET NO. 35717.

A. In Docket No. 35717, the Commission approved recovery over a seven year period of the Company's unrecovered balance in historic liability losses and storm damage costs that existed as of December 31, 2007, in the amount of $142,923,284. The annual amortization amount approved was $20,417,612, as reflected in the Commission's Final Order, FOF No. 101.

Oncor implemented new rates approved by the Commission on September 17, 2009. Due to the test year for this filing consisting of the recorded costs for the period July 1, 2009 through June 30, 2010, Oncor's actual operating expense reflects only 9 months and 14 days of amortization of the self insurance reserve losses, which resulted in a recorded amount of $16,107,228.

Q. PLEASE PROVIDE THE ADJUSTMENT THAT WOULD BE NECESSARY TO REFLECT A FULL 12 MONTHS OF SELF INSURANCE RESERVE LOSS AMORTIZATION FOR THE TEST YEAR.

A. The adjustment required to reflect a full 12 months of the self insurance reserve loss amortization amount approved in Docket No. 35717 is $4,310,384. This amount is determined by subtracting the actual recorded amount of $16,107,228 from the annual amount of $20,417,612 that was approved by the Commission.

2. Approved Deferred Pension Costs Pursuant to PURA Section 36.065

Q. PLEASE DESCRIBE THE ACCOUNTING ADJUSTMENT RELATING TO THE RECOVERY OF DEFERRED PENSION COSTS AS APPROVED IN DOCKET NO. 35717.

A. In Docket No. 35717, the Commission approved recovery over a five year period of the Company's balance in deferred pension costs that existed as of December 31, 2007, in the amount of $46,975,120. The annual amount approved was $9,395,024, as reflected in the Commission's Final Order, FOF No 79.

Q. OF THE $9,395,024 IN APPROVED ANNUAL PENSION COSTS, WHAT IS THE ACTUAL AMOUNT THAT IS REFLECTED ON THE COMPANY'S BOOKS AND RECORDS DURING THE TEST YEAR?

A. As previously mentioned, the test year does not reflect a full 12-months of certain Docket No. 35717 approved costs. The amount of pension expense recorded on Oncor's books and records for the test year is $7,411,630, reflecting 9 months and 14 days of amortization expense.

Q. PLEASE PROVIDE THE ADJUSTMENT THAT IS NECESSARY TO REFLECT A FULL 12 MONTHS OF DEFERRED PENSION AMORTIZATION EXPENSE FOR THE TEST YEAR.

A. The adjustment required to reflect a full 12 months of deferred pension costs is $1,983,394. This amount is calculated by subtracting the actual test year recorded amount from the amount approved in the Docket No. 35717.

3. Approved Deferred OPEB Costs Pursuant to PURA Section 36.065

Q. PLEASE DESCRIBE THE ACCOUNTING ADJUSTMENT RELATING TO THE RECOVERY OF DEFERRED OPEB COSTS AS APPROVED IN DOCKET NO. 35717.

A. In Docket No. 35717, the Commission approved recovery over a five year period of the Company's balance in deferred OPEB costs that existed as of December 31, 2007, in the amount of $37,906,425. The annual amount approved was $7,581,285 as reflected in the Commission's Final Order, FOF No. 79.