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Staff testified that the current capital structure of Elkton Gas consisted of 49.59% equity and 50.41% debt, which it said is consistent with most of the Maryland regulated utilities' capital structure.[111] Staff recommended that the Commission condition its approval with a requirement that Elkton Gas maintain a rolling 12-month average annual equity of at least 48%, to ensure that neither AGL Resources nor Southern Company attempts to shift some of its riskier, leveraged financial position onto Elkton Gas. The Joint Applicants committed to this condition in the Settlement Agreement.

Accordingly, subject to the terms of the Settlement Agreement relating to the capital structure of Elkton Gas, I find that no adverse change in the capital structure of Elkton Gas will occur due to the Acquisition or the Merger.

The Potential Effects on Employment by Elkton Gas

The Joint Applicants stated that Elkton Gas employs eight individuals in Maryland to manage the day-to-day operations of Elkton Gas in its Maryland service territory. The Joint Applicants committed to retaining the employment of these individuals for at least three years after the closing date of the Merger. The commitment is a term and condition of the Settlement Agreement. I therefore find no adverse effects will occur on employment by Elkton Gas in Maryland as a result of the Merger.

[111] Alvarado Direct at 11.

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The Projected Allocation of any Savings to Elkton Gas that are Expected between Stockholders and Rate Payers

The Joint Applicants have stressed that the resulting Merger is not likely to provide synergy savings to the Elkton Gas operations. Consequently, as no savings are expected, the Joint Applicants have no projection of allocation of any such savings, but agreed that if any savings or efficiencies were gained by the Merger, Elkton Gas' share of the savings would flow to its customers through the normal ratemaking process. In the Settlement Agreement, the Joint Applicants have committed that Elkton Gas will file a base rate case within two years of the date of the closing of the Merger. As explained by OPC and Staff, in the base rate case, the Commission will be able to consider whether any synergy savings and efficiencies have been achieved by the Merger which should be flowed to the Elkton Gas customers. Moreover, the Joint Applicants have agreed that to the extent any of the transition costs (those costs incurred to achieve the synergy savings) during the Elkton Gas test period in Elkton Gas' next base rate case exceed the synergy savings achieved, Elkton Gas will forgo cost recovery of the transition costs that exceed synergy savings. I find that this commitment is an additional benefit to Elkton Gas' customers and properly balances any savings to be achieved by the Merger between the Elkton Gas customers and the shareholders.

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Issues of Reliability, Quality of Service, and Quality of Customer Service

Staff testified that Elkton Gas does not have a history of issues either with safe, reliable service or quality of customer service. The Joint Applicants have identified a type of pipe material which has a potential of "brittle-like cracking" that may result in an unsafe condition to Elkton Gas' distribution system. They therefore committed to conducting an accelerated assessment survey at no cost to the Elkton Gas customers of the Aldyl-A pipe to determine its condition. Staff and OPC each recommended an additional condition to insure the Elkton Gas distribution system continued to have safe, reliable operations. The Settlement Agreement terms included both Staff's and OPC's additional condition recommendations. I therefore find that the Settlement Agreement addresses any concerns of any issue with reliability, safety and quality of service of the distribution pipeline as a result of the Merger.

Although the Joint Applicants agreed, for a period of three years, to maintain the employee level in Maryland associated with Elkton Gas' operations, I noted that the customer service call center that handles Elkton Gas customers' calls is located in Georgia and the customer service representatives are employed by AGL Resources. Currently, according to AGL Resources, it has four full-time AGL employees handling approximately 12,500 Elkton Gas customer calls annually.[122] Even though the Maryland employee level may not change for a period of three years, I questioned whether any decrease in the number of full-time customer service representatives handling Elkton Gas calls might occur even if the number of calls did not decrease. Ms. Keefe indicated that there was no expected change in the number of dedicated AGL Resources' employees who handle the Elkton Gas customer calls.[123] Accordingly, I find that the quality of customer service will not be adversely impacted due to the Merger.

The Potential Impact of the Acquisition on Community Investment

According to the Joint Applicants, Southern Company strongly encourages community investments by its operational companies. Mr. Beattie explained that Southern Company encourages each of its operating companies to establish economic development programs and hire personnel to administer the programs to create more jobs and a higher quality of life for individuals in each Southern Company service territory.[124] Additionally, he described the level of community involvement by Southern Company employees in 2014 as well as the charitable donations made by Southern Company or its subsidiaries to provide environmental, educational, and

[122] Pavlovic Direct ("Confidential"), Data Responses Referenced in the Direct Testimony of Karl R. Pavlovic, Joint Applicants' Response to OPC Data Request No. 1-10.

[123] March 1, 2016 Evidentiary Hearing Transcript ("Transcript") at 24.

[124] Beattie Direct at 7.

cultural support to the communities served by the operating companies.[125]

The Joint Applicants initially committed to sustain the level of community investment currently made by Elkton Gas for a period of five years, which would continue to target charitable, workforce development and economic development in the Elkton Gas service territory. Staff concluded that maintaining the same level of investment for a period of five years was not sufficient to demonstrate a benefit to consumers, and recommended that the Joint Applicants commit to maintain Elkton Gas' level of community investment for ten years.

Under the Settlement Agreement, the Joint Applicants have increased their commitment to sustain Elkton Gas' level of community investment to ten years. Additionally, the commitment includes an agreement that Elkton Gas will not seek recovery of these investments through its rates. Consequently, although the level of the community investment may not increase by reason of the Merger, the level will not decrease. To the extent that Elkton Gas customers will not see the costs of the investments recovered in rates, I find the condition results in a benefit to the customers as well as to the community without any harm to the ratepayers. I find that there will be no adverse impact from the Acquisition or the Merger on continuing community investment by Elkton Gas for at least ten years.

[125] Beattie Direct at 9.

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Affiliate and Cross-Subsidization Issues

The Joint Applicants witnesses testified that there were no affiliate or cross-subsidization issues raised by the Merger. Staff, subject to the conditions it recommended, agreed that there would be no affiliate or cross-subsidization issues raised by the Merger. The Settlement Agreement includes the recommended conditions sought by Staff to ensure no affiliate or cross-subsidization issues occur as a result of the Merger. Consequently, I find the terms and conditions of the Settlement Agreement acceptable to prevent any affiliate and cross-subsidization issues occurring as a result of the Merger.

The Use or Pledge of Utility Assets for the Benefit of an Affiliate

According to the Joint Applicants, neither AGL Resources nor Elkton Gas will issue any debt or equity as part of, or to fund, the Merger. Mr. Linginfelter indicated that Elkton Gas would continue to issue debt as it previously did. The Settlement Agreement includes the Joint Applicants' agreement that AGL Resources and Elkton Gas will not issue any debt or equity as a part of or to fund the Merger. I find that the commitment prevents Elkton Gas from using or pledging its utility assets for the benefit of an affiliate in connection with or to fund the Merger.

Jurisdictional and Choice of Law Issues

The Joint Applicants committed that Elkton Gas and its affiliates will continue to comply with the Commission's codes of

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conduct regulations. I find no issues as to the Commission's continuing jurisdiction over Elkton Gas, or its jurisdiction over Elkton Gas and its affiliates in relationship to affiliate transactions. Neither Staff nor OPC raised a choice of law issue, and I find no issues related to choice of law.

Whether it is Necessary to Revise the Commission's Ring Fencing and Code of Conduct Regulations in Light of the Acquisition

Other than Elkton Gas resuming its submission of its ring fencing report and filing a cost allocation manual, Staff did not find it necessary to revise any of the Commission's ring fencing and code of conduct regulation prior to the closing of the Merger. As initially recommended by Staff, the Settlement Agreement includes a commitment by the Joint Applicant to conduct a risk assessment to determine if more stringent ring fencing measures should be implemented as a result of the Merger. Ms. Keefe testified that the Joint Applicants intend to complete the risk assessment within 90 days of the Merger closing date and file it with the Commission as recommended by Staff.[126] I conclude that it is not currently necessary to revise the Commission's ring fencing and code of conduct regulations as a result of the Merger, as long as Elkton Gas resumes its filing of its ring fencing report and submits a cost allocation manual within 90 days of the closing date of the Merger. Further, in the event that the risk assessment filed with the Commission reveals that additional ring fencing

[126] Transcript at 23.

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measures may be needed, the Commission may address the need for these measures in a further proceeding.

Other Issues Relevant to the Assessment of Acquisition in Relation to Public Interest, Convenience and Necessity

Supplier Diversity Goals

In prior merger cases, the Commission has considered other public interest issues, such as the utility's adherence to the supplier diversity goals.[127] The Joint Applicants have committed to increase Elkton Gas' 2014 DSR by a factor of 4. Further, the Joint Applicants committed to maintaining the post-merger levels and to continue to strive to meet the Commission's target DSR goal of 25%. Southern Company, according to Mr. Beattie, has a robust supplier diversity program. Mr. Beattie testified that diverse business spending represented approximately 25% of Southern Company's total direct procurement expenditure in 2014.[128] He explained that Southern Company had formed a Supplier Diversity Council to coordinate business diversity efforts and share best practices across Southern Company's operating companies and business units.[129] According to Staff, Elkton Gas' DSR for 2014 was 4.42%.[130] Although under the commitment, Elkton Gas' DSR for

[127] *See* Order No. 86990, *In the Matter of the Merger of Exelon Corporation and Pepco Holdings, Inc.*, Case No. 9361, Slip Opinion at 83 (May 15, 2015); *see also In the Matter of the Merger of Exelon Corporation and Constellation Energy Group Inc.*, Case No. 9271, 103 MD P.S.C. 22 at 70-71 and 79.

[128] Beattie Direct at 8.

[129] *Id.*

[130] Alvarado Direct at 18.

2017 will be at or above 17%, which is still below the Commission's target goal of 25%, the commitment will result in the diversity spend increasing at an accelerated pace during the next several years.

Thus, upon the Merger closing, Elkton Gas' supplier diversity program may benefit from implementation of the best practices of Southern Company in encouraging supplier diversity spend with Elkton Gas. Further, Ms. Keefe testified that AGL Resources has amended its Master Service Agreement across its entire AGL footprint "to strongly encourage its prime contractors to be aware of and commit to the same level of commitment the Company has to increase diverse contracts, supplies and services."[131] I therefore find that the commitment to enhance and advance Elkton Gas' diverse supplier spend is consistent with the Commission's policy goals for diverse supplier spend by utilities in Maryland. Under the commitment, Elkton Gas' ability to meet the 25% target goal will be accelerated, which is beneficial to the community and public in general. Thus, I find this commitment benefits the public interest and is acceptable.

Most Favored Nation Provision

The Joint Applicants have committed to submit all orders and/or settlement agreement from each jurisdiction in which they are seeking Merger approval upon approval of the Merger. They also will include an analysis explaining the valuation of any direct

[131] Transcript at 18.

customer credits awarded in another jurisdiction as compared to the value of the direct customer credits in the Settlement Agreement. In the event the value of the Maryland direct customer credits is less beneficial than in another jurisdiction, the Joint Applicants agreed to provide additional customer credits to Elkton Gas' customers equivalent to such shortfall calculated on a per-distribution customer basis. This provision ensures that Elkton Gas' customers are treated similarly to its other affiliates' customers affected by the Merger. I find this condition is reasonable and will inure to the benefit of Elkton Gas' customers.

Conclusion

In review of the Joint Applicants' case-in-chief, I find that the Joint Applicants submitted information sufficient to meet the requirements of § 6-105(f) and has presented evidence to demonstrate that the Acquisition satisfies each of the factors enumerated in § 6-105(g)(2). In each of its initial case, neither Staff nor OPC opposed the Acquisition as long as the conditions recommended by its witness(es) to address Staff's and OPC's concerns were included in any approval of the Acquisition. After negotiations between the parties on the identified issues in dispute, the parties were able to resolve the disputes and arrive at an agreement that the factors listed in Public Utilities Article, §6-105(g) were satisfied as long as the terms and conditions agreed upon in the Settlement Agreement were accepted and approved by the Commission without modification. Each of the

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parties agreed, subject to the conditions, that the acquisition by Southern Company of the potential power to substantially influence the policies and actions of Elkton Gas was in the public interest, convenience and necessity, including benefits and no harm to the consumer.

The Commission has found that a unanimous settlement agreement is reasonable because it is submitted "by parties who normally have adverse interest."[113] My consideration of the terms and conditions of the Settlement Agreement confirms that they reflect a balance between the positions taken by the parties in the proceeding, and the terms and conditions provide a reasonable resolution of each disputed issue and eliminate any potential harm to consumers and ensure net benefits to the Elkton Gas customers as a result of the Acquisition and Merger. I therefore find the Settlement Agreement is reasonable and that the acceptance and approval of the Settlement Agreement without modification is in the public interest.

Subject to the conditions set forth in the Settlement Agreement and agreed to by the Joint Applicants, I find that the Joint Applicants have demonstrated that the approval of the acquisition has satisfied each of the factors listed in § 6-105(g)(3). I find that, subject to the conditions set forth in the Settlement Agreement, the Merger will result in direct benefits to the Elkton customers with no harm to the customers. Several of the commit-

[113] *See Re Delmarva Power & Light Company*, 102 Md. P.S.C. 215, 340 (2011); *Re Potomac Electric Power Company*, 56 Md. P.S.C. 329, 333 (1999).

ments also provide benefit to the public at large in the Elkton Gas service territory, and therefore the Merger will be in the public interest as well. Accordingly, I find that the acquisition is consistent with the public interest, convenience and necessity, including benefits and no harm to the consumers. Accordingly, I hereby grant the Application subject to the conditions in the Settlement Agreement and authorize Southern Company's acquisition of the potential power to substantially influence the policies and actions of Elkton Gas that will result upon the closing of the Merger.

Under the initial procedural schedule adopted in this matter,[113] the target date for the Proposed Order was May 2, 2016. In light of the settlement agreed upon by the parties and the elimination of a briefing schedule, the record in the proceeding closed earlier than initially expected and resulted in the Proposed Order ready to be issued approximately 30 days earlier than the original target. Also, in the initial procedural schedule, to allow the Commission adequate time to consider any appeals, the appeal period and process was compressed. As I have accepted the Settlement Agreement without modification and authorized the Acquisition, I do not expect an appeal to be taken of the Proposed Order. Nevertheless, I wish to afford the Commission adequate time to review the record in this matter, the terms and conditions of the Settlement Agreement, and my decisions in this Proposed Order.

[113] *See* Public Utility Law Judge's Notice of Procedural Schedule issued on December 4, 2015 in this proceeding.

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Accordingly, I will not shorten the appeal period inasmuch as the Proposed Order, if no appeal is taken or the Commission does not initiate further proceedings on its on motion, will become a final Order of the Commission on May 3, 2016, one business day after the initial Proposed Order target issuance date.

IT IS THEREFORE, this 31st day of March in the year, Two Thousand Sixteen,

ORDERED: (1) That the Joint Petition for Approval of Stipulation and Settlement Agreement is hereby granted and the Stipulation and Settlement Agreement is hereby accepted and approved without modification.

(2) That the application of The Southern Company, AGL Resources Inc., and Pivotal Holdings, Inc. d/b/a Elkton Gas for authority for The Southern Company to acquire the power to substantially influence the policies and actions of Elkton Gas as a result of a merger between The Southern Company and AGL Resources Inc. is hereby granted, subject to the conditions attached hereto as Attachment A and incorporated hereby into this Proposed Order.

(3) That all other motions or requests not specifically granted herein are denied.

(4) That this Proposed Order will become a final order of the Commission on May 3, 2016, unless before that date an appeal is noted with the Commission by any party to this proceeding as provided in § 3-113(d)(2) of the Public Utilities

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Article, or the Commission modifies or reverses the Proposed Order or initiates further proceedings in this matter as provided in § 3-114(c)(2) of the Public Utilities Article.

Terry J. Romine
Chief Public Utility Law Judge
Public Service Commission of Maryland

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BEFORE THE
PUBLIC SERVICE COMMISSION
OF MARYLAND

IN THE MATTER OF THE	*	
MERGER OF THE	*	
SOUTHERN COMPANY AND	*	Case No. 9404
AGL RESOURCES INC.	*	
	*	
	*	

STIPULATION AND SETTLEMENT AGREEMENT

On November 3, 2015, The Southern Company ("Southern Company"), AGL Resources Inc. ("AGL Resources"), and Pivotal Utility Holdings, Inc. ("Pivotal"), d/b/a Elkton Gas ("Elkton Gas") (collectively, the "Joint Applicants") filed an application ("Joint Application") with the Public Service Commission of Maryland ("Commission") requesting authorization for Southern Company to acquire the power to exercise substantial influence over the policies and actions of Elkton Gas, pursuant to § 6-105 of the Public Utilities Article ("PUA"). The Joint Applicants sought this authority as a result of an agreement between Southern Company and AGL Resources to combine (the "Merger"), whereby Southern Company will become the ultimate parent company of Elkton Gas, a public service company operating in Maryland and a wholly-owned subsidiary of AGL Resources.

Following the preliminary procedures in this case, which included extensive discovery and the filing of testimony by the Joint Applicants, the Commission Staff ("Staff"), and the Office of People's Counsel ("OPC") (collectively, the "Parties"), the Parties engaged in extensive and comprehensive negotiations with respect to all aspects of the issues raised in Case No. 9404. As a result of those negotiations, the Parties have reached unanimous agreement on a settlement of the Joint Application, the terms and conditions of which are set forth in the enumerated paragraphs below.

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(1) The Parties conclude that Southern Company should be authorized to acquire the power to exercise substantial influence over the policies and actions of Elkton Gas pursuant to PUA § 6-105, subject to each of the terms and conditions below.

Direct Customer Credits[1]

(2) The Joint Applicants will provide direct customer rate credits, funded from a $100,000 increase in the amount paid through Elkton Gas's asset management agreement, to Elkton Gas customers, payable over a two-year period ($50,000 of which will be credited to customers within 120 days of the closing of the Merger, and $50,000 of which will be credited to customers within one year thereafter).[2]

Regulatory Cost Avoidance Benefits

(3) The Joint Applicants will provide an additional direct customer rate credit to Elkton Gas customers within 120 days of the closing of the Merger, provided from funds available as a result of savings associated with the avoidance of further regulatory litigation costs, in the amount of $100,000.

Direct Customer Benefits

(4) The Joint Applicants will perform an accelerated assessment of all Aldyl-A pipe in the Elkton Gas system (estimated to cost $50,000) at no cost to Elkton Gas customers.[3]

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[1] Direct Customer Credits and the Regulatory Cost Avoidance Benefits are subject to a most favored nations ("MFN") provision set forth below.

[2] The Joint Applicants will amend Elkton Gas' current asset management agreement with Sequent Energy Management L.P. ("AMA") to provide a $100,000 increase in the amount paid to Elkton Gas, and flowed through to customers. This increased payment shall be flowed through to customers without regard to existing revenue sharing provisions of the AMA.

[3] The Elkton Gas distribution system consists of 102 miles of pipe, 73 miles of which is plastic pipe, of which 48.7 miles is comprised of a material known as Aldyl-A. This type of pipe is surveyed regularly along with all other types of pipe in the Elkton Gas distribution system, and to date, there has been no evidence of deterioration of this type of pipe. At a projected cost of $50,000, the assessment will entail: (1) a thorough review of leak/break data on Aldyl-A pipe throughout the Elkton Gas distribution system, (2) a comparison of the period of installation against industry reports for similarly aged Aldyl-A pipe, and (3) a physical inspection

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Rate Making Matters

(5) Within 90 days of closing of the Merger, Elkton Gas will file an annual financial report for the previous 12 month period, which shall include Elkton Gas's revenues and costs. The report will set forth a calculation of the earned return on rate base and return on equity for Elkton Gas. Elkton Gas will thereafter file a financial report for the next 12 month period within 60 days of that 12 month period end.

(6) The Joint Applicants will file a base rate case within two years of the closing of the Merger.

(7) In the event that transition costs (defined as costs incurred to achieve synergy savings related to the Merger) exceed synergy savings during the test year in Elkton Gas's next base rate case, the Joint Applicants will forgo cost recovery of the transition costs that exceed synergy savings.

(8) Elkton Gas will not seek recovery in its rates of: (i) any acquisition premium associated with the Merger, (ii) any cost associated with goodwill arising from the Merger, or (iii) any transaction cost incurred in connection with the Merger. For purposes of this commitment, transaction costs are defined as: (1) consultant, investment banker, legal, and regulatory support fees; (2) change-in-control payments; (3) costs associated with the shareholder meetings and a proxy statement related to the Merger approval by AGL Resources' shareholders, and (4) costs associated with the imposition of conditions or approval of settlement terms in Merger proceedings in other state jurisdictions.

(9) AGL Resources and Elkton Gas will not issue debt or equity in connection with, or to fund, the Merger.

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of Aldyl-A pipe by appropriate sampling throughout the service area. Elkton Gas will not seek deferral or recovery of these assessment costs from customers.

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(10) For a period of two years following the closing of the Merger, the amount of costs assessed to Elkton Gas for services provided by an affiliate will be no greater than it would have been had the Merger not occurred, regardless of whether such services are provided directly or indirectly by Southern Company Services, Inc., AGL Services Company, or any other Southern Company affiliate.

<u>**Supplier Diversity Enhancements**</u>

(11) The Joint Applicants will increase the supplier diversity performance of Elkton Gas by increasing its Diverse Spend Ratio ("DSR"), as that term is defined in the May 29, 2009 Elkton Gas Supplier Diversity Memorandum of Understanding, by a factor of 4 during the period 2015 through 2017, as measured against Elkton Gas's 2014 DSR. The increase to be implemented by the end of 2017 will be at least 4 times Elkton Gas's 2014 DSR. The Joint Applicants will maintain the DSR at post-merger levels going forward, and continue to aim to increase Elkton Gas' DSR over time to 25 percent.

<u>**Community Investment Enhancements**</u>

(12) Joint Applicants will sustain Elkton Gas's current levels of community investment for at least ten (10) years following the closing of the Merger. Community investment activities will continue to target charitable, workforce development, and economic development efforts in the Elkton Gas service area benefitting Elkton Gas customers. Elkton Gas will not seek recovery in its rates of costs related to these community investment activities.

<u>**Infrastructure Enhancements**</u>

(13) Within 60 days of completion, Elkton Gas will provide to the Commission a copy of the completed accelerated assessment study of the Aldyl-A piping (described in paragraph (4) of this Stipulation and Settlement Agreement) within Elkton Gas's distribution system. This study will also include any other deficiencies identified in the course of performing that

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assessment that relate to the other piping materials within Elkton Gas's distribution system that could lead to unsafe conditions.

(14) Within 60 days of completing the accelerated assessment, Elkton Gas will provide to the Commission a plan for remediating any of the deficiencies found with the Aldyl-A and/or any other piping materials discovered as a result of the assessment.

(15) Elkton Gas will continue to systematically remediate system knowledge deficiencies in accordance with established programs and procedures.

Financial Integrity and Ring Fencing Enhancements

(16) Elkton Gas will maintain a rolling 12-month average annual equity ratio of at least 48 percent.

(17) Within 90 days of closing of the Merger and annually thereafter, Elkton Gas will resume filing a ring fencing report pursuant to the Code of Maryland Regulations ("COMAR") 20.40.02.08. In addition, within 90 days of closing of the Merger, Elkton Gas will file a cost allocation manual pursuant to COMAR 20.40.02.07.

(18) The Joint Applicants will conduct an analysis of their operational and financial risk to determine the adequacy of their existing ring fencing measures, using the ring fencing conditions set forth in the Table LM-20 matrix, excluding the first three (3) ring fencing conditions contained in that matrix. A copy of Table LM-20 matrix is attached hereto.

(19) Elkton Gas and its affiliates, including but not limited to the Pivotal Utility Holdings, Inc. family, will comply with the statutes and regulations applicable to Elkton Gas regarding affiliate transactions.

(20) Southern Company will promptly report to the Commission any change by at least two of the three major credit rating agencies of the rating of the senior unsecured long-term

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public debt securities issued by Southern Company, AGL Resources, or Pivotal by providing the rating letter and related explanatory note.

<u>Secure Maryland Employment</u>

(21) For at least the first three years following the closing of the Merger, the Joint Applicants will maintain current employment levels within the Maryland workforce supporting Elkton Gas's operations.

<u>Maintain Local Corporate Presence</u>

(22) Elkton Gas will maintain its headquarters in Elkton, Maryland.

(23) Elkton Gas will retain its corporate name and form, and will continue to be a division of Pivotal Utility Holdings, Inc.

(24) AGL Resources will continue to have a separate board of outside directors for a minimum of five (5) years following the closing of the Merger.

<u>Most Favored Nation Provision</u>

(25) Within sixty (60) days after the Merger closes, the Joint Applicants will file with the Commission a copy of the final Orders and/or Settlement Stipulations from the other jurisdictions from which it is seeking Merger approval (the California Public Utilities Commission, Georgia Public Service Commission, Illinois Commerce Commission, the New Jersey Board of Public Utilities, and the Virginia State Corporation Commission) following approval in each of those jurisdictions, along with an analysis indicating the total dollar amount of any direct customer credit approved in each jurisdiction (including a calculation of that amount on a per distribution customer basis) and explaining the valuation of the direct customer credits awarded in that jurisdiction as compared to the value of the benefits provided for in

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paragraphs (2) and (3) of this Stipulation and Settlement Agreement (calculated in each case on a per-distribution customer basis).

If, on a per-distribution customer basis, the direct customer credits provided to customers in other jurisdictions are materially more beneficial in the aggregate than the terms of the Maryland Settlement, including the direct customer credits specified in Paragraphs (2) and (3) above, then the Joint Applicants will be obligated to provide additional direct customer credits to Elkton Gas's customers equivalent to such shortfall calculated on a per-distribution customer basis.

Further Conditions, Assertions and Reservations

(26) The Parties further stipulate and agree that:

A. the Joint Application, along with all testimony of Staff, OPC, and the Joint Applicants filed in this proceeding, including any testimony proffered in support of this Stipulation and Settlement Agreement, shall be made a part of the record, except as set forth in paragraph G, below;

B. this Stipulation and Settlement Agreement is expressly conditioned upon the Commission's acceptance of all of its terms, without change or condition;

C. this Stipulation and Settlement Agreement constitutes a full settlement of the Joint Application and resolves all issues and adjustments raised by the Joint Application, contested and uncontested. This Stipulation and Settlement Agreement may only be modified by a further written agreement executed by all the parties to this Agreement;

D. this Stipulation and Settlement Agreement represents a compromise of divergent positions in order to end litigation, and shall not be regarded as precedent with respect to any future case. The Parties agree that the terms and conditions resulting from this compromise and contained in this Stipulation and Settlement Agreement will result in Southern Company's acquisition of substantial influence over the policies and actions of Elkton Gas being consistent with the public interest, convenience, and necessity, including benefits and no harm to consumers, in accordance with PUA § 6-105(g)(3)(i). The Parties further agree that the resolution of the issues herein, taken as a whole, is in the public interest, convenience and necessity;

E. acceptance by the Commission of this Stipulation and Settlement Agreement shall not be deemed nor shall it constitute in any respect a determination by the Commission as to the merits of any of the contentions or allegations that might be made by any of the Parties to the Stipulation and Settlement Agreement in the absence of settlement;

F. the discussions and negotiations which produced this Stipulation and Settlement Agreement have been conducted on the explicit understanding that all offers of settlement and discussions relating thereto are and shall be privileged and confidential, shall be without prejudice to the position of any party or participant presenting any such offer or participating in any such discussions, and are not to be used in any manner in connection with this proceeding or otherwise;

G. since this Stipulation and Settlement Agreement is conditioned upon Commission acceptance of its terms in their entirety, as aforesaid, the Stipulation and Settlement Agreement shall be submitted to the Commission on the condition that, in the event the Commission does not accept and approve it in its entirety, the Stipulation and Settlement Agreement shall be deemed withdrawn and void, and neither this Stipulation and Settlement Agreement, nor any matters associated with its consideration by the Commission, shall be considered or argued to be a waiver of the rights that any Party has for a decision in this matter.

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If the Commission does not unconditionally approve this Stipulation and Settlement Agreement without modification, the Parties shall retain all procedural and due process rights as fully as though this Stipulation and Settlement Agreement had not been presented for approval, and any memoranda, testimony, or exhibits that have been offered or received in support of this Agreement shall become privileged as reflecting the substantive content of settlement discussion and shall be stricken from and not be considered as part of the administrative or evidentiary record before the Commission for any further purpose whatsoever; and

H. If the Commission unconditionally accepts the specific terms of this Stipulation and Settlement Agreement without modification, the Parties waive their respective rights to: (1) appeal a proposed order of the Public Utility Law Judge to the Commission; (2) seek rehearing of a Commission order; and (3) seek judicial review of a Commission order. The Parties shall not take any action before the Commission or a Court in derogation of this Stipulation and Settlement Agreement.

I. The terms and conditions set forth in this Stipulation and Settlement Agreement shall only be binding on the Parties upon approval by the Commission and upon consummation of the Merger, which are express conditions precedent.

J. The Parties may execute this Stipulation and Settlement Agreement in separate counterparts, each of which, when so executed and delivered, shall constitute an original, but all of which together shall constitute one and the same instrument. In the event that any signature is delivered by facsimile transmission or by e-mail delivery of a ".pdf" or other formatted data file, such signature shall be treated as an original and create a valid and binding obligation of the executing party.

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Respectfully submitted,

Annette B. Garofalo
Peter A. Woolson
Assistant Staff Counsel
Staff of the Public Service Commission

Ronald Herzfeld
Assistant People's Counsel
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J. Joseph Curran, III
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Counsel for AGL Resources Inc. and Pivotal Utility Holdings, Inc., d/b/a Elkton Gas

February 24, 2016

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Respectfully submitted,

Annette B. Garofalo
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Assistant Staff Counsel
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February 24, 2016

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Respectfully submitted,

Annette B. Garofalo
Peter A. Woolson
Assistant Staff Counsel
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February 24, 2016

Attachment A

Respectfully submitted,

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Staff of the Public Service Commission

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February 24, 2016

Attachment A

Public Version
Confidential Materials Redacted

Table LM-10

Ring-fencing Condition	Risk Category (derived from OCM score)		
	High Risk (OCM Score of x>7)	Moderate Risk (OCM Score of 7>x>4)	Low Risk (OCM Score of 4>x)
Corporate Governance			
Form a bankruptcy remote, special purpose entity (SPE) to hold the equity shares of the utility	X		
Obtain a non-consolidation opinion	X		
Utility divestiture condition may be imposed by regulators under defined conditions	X		
Maintain its own board of directors	X	X	X
Board of directors must include at least one independent director	X	X	
Unanimous consent of board of directors required for major corporate restructurings	X		
Maintain officers whose responsibilities are dedicated solely to the utility	X	X	
Maintain own separate books and records	X	X	X
Provide PSC access to books and records upon request	X	X	X
Not commingle its assets with affiliates	X	X	
File its own tax returns	X	X	
Maintain own offices and headquarters	X	X	
Maintain arms-length relationship with affiliates	X	X	
Financial Commitments			
Restrict or eliminate utility participation in corporate money pools	X	X	
Utility shall not pay dividends if utility's equity ratio will fall below a defined percentage	X	X	
Defined equity ratio requirement	X	X	
Not pledge assets for the benefit of parent	X	X	
Reporting Requirements			
Provide PSC access to books and records upon request	X	X	X
Notify PSC of any change in parent or utility subsidiary credit rating	X	X	X
Provide PSC annual reporting of transactions with unregulated affiliates	X	X	X
Provide PSC annual reporting of ring-fencing conditions and compliance, including an OCM or equivalent analysis	X	X	X
Other			
Explicitly accept authority of PSC to order divestiture of utility if the PSC deems this action necessary and appropriate	X		
Source: Industry experience and judgment of the authors.			

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COMMONWEALTH OF VIRGINIA

STATE CORPORATION COMMISSION

AT RICHMOND, FEBRUARY 23, 2016

SCC-CLERK'S OFFICE
DOCUMENT CONTROL CENTER
2016 FEB 23 P 3: 50

JOINT PETITION OF

THE SOUTHERN COMPANY,
AGL RESOURCES INC., and
VIRGINIA NATURAL GAS, INC.

CASE NO. PUE-2015-00113

For approval of an acquisition of control
of a public utility pursuant to Chapter 5
of Title 56 of the Code of Virginia

FINAL ORDER

On October 26, 2015, The Southern Company ("Southern"), AGL Resources Inc. ("AGLR"), and Virginia Natural Gas, Inc. ("VNG") (collectively, "Petitioners"), filed with the State Corporation Commission ("Commission") a joint petition seeking Commission approval, pursuant to the Utility Transfers Act, Chapter 5 of Title 56 of the Code of Virginia ("Code"),[1] of the indirect acquisition of control over VNG by Southern ("Joint Petition").[2] According to the Petitioners, subsequent to obtaining all regulatory approvals, AGLR will merge with AMS Corp., a wholly owned subsidiary of Southern ("Merger").[3] The Petitioners further stated that VNG will remain a direct subsidiary of AGLR and thereby become an indirect, wholly owned subsidiary of Southern upon completion of the Merger.[4]

On November 13, 2015, the Commission issued an Order for Notice and Comment that, among other things, directed the Petitioners to provide notice to the public of the Joint Petition;

[1] Va. Code § 56-88 et seq.

[2] Joint Petition at 1.

[3] Id. at 1, 6-7.

[4] Id. at 7.

provided an opportunity for interested persons to file a notice of participation in this proceeding and file comments or request a hearing on the Joint Petition; and directed the Staff of the Commission ("Staff") to conduct an investigation of the Joint Petition and present its findings and recommendations in a report ("Staff Report").

On December 18, 2015, the Office of the Attorney General's Division of Consumer Counsel ("Consumer Counsel") filed a notice of participation. No other parties have maintained their participation in this proceeding,[5] and no comments on the Joint Petition have been filed.

The Staff filed a Staff Report on the Joint Petition on February 2, 2016, which documented a number of representations made by the Petitioners in the Joint Petition and in response to the Staff's investigation.[6] Based upon the Petitioners' representations, the Staff concluded that adequate service to the public at just and reasonable rates would not be impaired or jeopardized by the granting of approval of the proposed Merger and, therefore, recommended that the Commission approve the Merger subject to certain requirements listed in the Appendix to the Staff Report.[7]

On February 17, 2016, the Petitioners and Staff filed a Joint Motion for Leave to Present Stipulation and Recommendation ("Joint Motion"), attached to which was a Stipulation and Recommendation ("Stipulation") as a proposed resolution of all key issues with respect to the

[5] On December 28, 2015, Direct Energy Business Marketing, LLC, and Gateway Energy Services Corporation filed a motion withdrawing their December 18, 2015 notice of participation and request for hearing, which the Commission granted by Order dated December 29, 2015. By Order dated February 8, 2016, the Commission also granted the February 3, 2016 motion of the International Brotherhood of Electrical Workers Local 50 ("IBEW Local 50") to withdraw their February 1, 2016 motion to accept notice of participation and IBEW Local 50's notice of participation.

[6] *See, e.g.*, Staff Report at 4-5, 15-17, 21, 27-28, 31-33, 35-37, 39.

[7] *See id.* at 17, 28-29, 39-43, 44-47.

proposed requirements listed in the Staff Report.[8] In the Joint Motion, the Petitioners and the Staff asserted that adequate service to the public at just and reasonable rates will not be impaired or jeopardized by approval of the Merger, contingent upon the recommended requirements identified in the Stipulation, consistent with § 56-90 of the Code, and therefore urged the Commission to adopt the Stipulation and approve the Merger.[9]

The only issue with respect to the requirements that was not resolved by the Stipulation was related to the timing of the sunset provision for a proposed requirement on staffing levels.[10] The proposed requirement provides in part that the Petitioners "maintain, at a minimum, 215 employee positions that, in whole or in part, pertain to the requirements of the Commission's pipeline safety standards, as well as the Underground Utility Damage Prevention Act (§ 56-265.14 *et seq.* of the Code)...."[11] The Petitioners and the Staff asked the Commission to determine whether the requirement should be in place for five years as proposed by the Staff or for three years as proposed by the Petitioners.[12]

Also filed on February 17, 2016, was the Petitioners' Response to the Staff Report ("Petitioners' Response"), in which the Petitioners asserted that the Merger should be approved because it will not impair or jeopardize VNG's provision of adequate service to its customers at just and reasonable rates, consistent with the statutory standard set forth in § 56-90 of the Code.[13] The Petitioners reiterated that the Merger will be seamless for VNG's customers and notable

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[8] Joint Motion at 2-3.

[9] *Id.* at 3.

[10] *Id.*, Stipulation at 2, 4-5.

[11] Stipulation at 4-5.

[12] *See id.* at 2,4-5; Joint Motion at 3; Staff Report at 31-32; Petitioner's Response at 7-9.

[13] Petitioners' Response at 3.

mostly for what it will not change for VNG.[14] Furthermore, the Petitioners emphasized that Virginia customers will continue to receive service from VNG in the same manner and pursuant to the same Commission-approved rates, terms and conditions upon which they now receive service, as borne out by the representations and voluntary commitments offered by the Petitioners.[15]

As to the only question left unresolved by the Stipulation, the Petitioners asserted that beyond the three years to which they have committed they, and VNG in particular, should be allowed the flexibility to manage potential changes in the work force due to the needs of the business, employee performance, the desires of individual employees, or other unforeseen circumstances.[16] The Petitioners further argued that it is conceivable that lower maintenance requirements from system modernization, improved technology, or other factors could influence these employment levels over time, and that requiring VNG to maintain those employees for a period of five years could limit VNG's flexibility to effectively and efficiently manage its cost of service for the benefit of customers without any clear incremental benefit in terms of safety.[17]

On February 19, 2016, Consumer Counsel filed a response to the Joint Motion stating that with the conditions set out in the Stipulation, it does not appear that approval of the Joint Petition and Stipulation will impair or jeopardize VNG's ability to provide adequate service to the public at just and reasonable rates. Accordingly, Consumer Counsel stated that it does not object to the Joint Motion and Stipulation.

[14] *Id.*

[15] *Id.* at 3-4.

[16] *Id.* at 8.

[17] *Id.*

NOW THE COMMISSION, upon consideration of this matter, is of the opinion and finds as follows. Section 56-90 of the Code provides:

> If and when the Commission, with or without hearing, shall be satisfied that adequate service to the public at just and reasonable rates will not be impaired or jeopardized by granting the prayer of the petition, the Commission shall make such order in the premises as it may deem proper and the circumstances require, and thereupon it shall be lawful to do the things provided for in such order....

The Petitioners have made several representations in support of the Joint Petition, both in their filings in this proceeding and in response to the Staff's investigation, as documented in the Staff Report. For example, the Petitioners represent that they "will not seek cost recovery of any portion of the acquisition premium, acquisition adjustment, fair value write-up, or goodwill/intangible related to the proposed merger through rates charged to Virginia jurisdictional customers."[18] We rely upon the Petitioners' representations to find that: (i) the Stipulation should be accepted; (ii) that we are satisfied that adequate service at just and reasonable rates will not be impaired or jeopardized by the Merger so long as the requirements as set out in the Stipulation are ordered as a condition of approval; and (iii) that the Merger should be approved subject to the requirements set forth in the Appendix to this Final Order.

The Stipulation presented by the Petitioners and the Staff asked the Commission to determine whether a requirement on staffing levels should be in effect for three years or five years.[19] Specifically, in Requirement (13) of the Stipulation, "Petitioners agree to maintain, at a minimum, 215 employee positions ..."[20] It is our understanding from the record herein that 205

[18] Staff Report at 7-8 (quoting Response to Staff Interrogatory No. 04-049).

[19] See Stipulation at 2, 4-5; Joint Motion at 1; Staff Report at 31-32; Petitioner's Response at 7-9

[20] Stipulation at 4-5.

of the 215 positions referenced in Requirement (13) will be VNG positions.[21] We find that these staffing levels should be maintained for five years. If in the future the Petitioners find that advancements in system modernization, improved technology, or other factors would affect the Petitioners' ability to effectively and efficiently manage its cost of service for the benefit of customers, and thereby render the requirement unreasonable, then the Petitioners may file for relief at that time.

Accordingly, IT IS ORDERED THAT:

(1) The Joint Motion filed by the Petitioners and the Staff is granted, and the Stipulation attached thereto hereby is adopted.

(2) The Petitioners shall maintain, at a minimum, 215 employee positions that, in whole or in part, pertain to the requirements of the Commission's pipeline safety standards, as well as the Underground Utility Damage Prevention Act (§ 56-265.14 *et seq.* of the Code) for a period of five years after the approval of this Merger by the Commission and shall not degrade the competence level of the employee workforce as a result of the Merger.

(3) Pursuant to § 56-88.1 and § 56-90 of the Code, the proposed Merger as described in the Joint Petition hereby is approved subject to the requirements set forth in the Appendix to this Final Order.

(4) There being nothing further to come before the Commission, this case is dismissed from the Commission's active docket, and the papers filed herein shall be placed in the file for ended causes.

[21] *See* Staff Report Part 3 at 81.

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AN ATTESTED COPY hereof shall be sent by the Clerk of the Commission to: Stephen D. Rosenthal, Esquire, Troutman Sanders LLP, 1001 Haxall Point, Richmond, Virginia 23219; Christopher H. Demko, Senior Attorney, The Southern Company, 30 Ivan Allen Jr. Boulevard, Atlanta, Georgia 30308; Erica L. McGill, Esquire, AGL Resources Inc., Ten Peachtree Place, Atlanta, Georgia 30309; Joseph K. Reid, III, Esquire, and Jennifer D. Valaika, Esquire, McGuireWoods LLP, Gateway Plaza, 800 East Canal Street, Richmond, Virginia 23219; and C. Meade Browder, Jr., Senior Assistant Attorney General, Division of Consumer Counsel, Office of the Attorney General, 900 East Main Street, Second Floor, Richmond, Virginia 23219. A copy also shall be delivered to the Commission's Office of General Counsel and the Divisions of Energy Regulation and Utility Accounting and Finance.

APPENDIX

Accounting Requirements

(1) The Commission's approval shall have no ratemaking implications. In particular, approval shall neither guarantee nor preclude the recovery of any costs directly or indirectly related to the Merger, which may be addressed in a future rate proceeding.

(2) VNG shall file a Report of Action within thirty (30) days after the first SEC filing that presents the Merger financial results which have been reviewed by the Petitioners' auditors. The Report of Action shall include the closing date of the Merger Transaction,[22] the actual total sale price, and the actual accounting entries recorded in Southern's, AGLR's and VNG's books to reflect the Merger. Such entries shall include: (a) All Closing Cost[23] accounting entries for the three Petitioners; (b) All Merger-related fair value, goodwill, and/or acquisition premium accounting entries for the three Petitioners; (c) All Merger-related current and deferred tax accounting entries for the three Petitioners; and (d) All Merger-related debt/equity financing accounting entries for the three Petitioners; by Petitioner, date, account number, account title, and amount. In addition, any VNG accounting entries shall be in accordance with the Uniform System of Accounts for natural gas local distribution companies, which includes booking any difference between the purchase price and the net book value of VNG's assets as an acquisition adjustment to Account 114.

(3) In addition to providing the initial Merger accounting entries in the Report of Action, the Petitioners shall be required to track all changes to the booked accounts or amortization periods for the original booked Merger amounts as reported in the Report of Action referred to in Requirement (2) above as they are expensed, depreciated, amortized, written down, etc., and provide any such changes and an explanation for any such changes annually in VNG's Annual Information Filing ("AIF") or base rate case application filed with the Commission.

(4) The Director of Utility Accounting and Finance shall be notified of Southern's tax election for the proposed Merger if and when it becomes effective.

(5) VNG shall file for Chapter 4 approval of a new Southern consolidated tax sharing agreement that includes AGLR and its affiliates, including VNG, with the Commission within 120 days of the Merger closing date.

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[22] *See* Staff Report at 2-3.

[23] *See id.* at 8-9.

(6) VNG shall file and obtain Chapter 3 and or 4 approval prior to entering into any new affiliate or financing arrangements resulting from the proposed Merger.

(7) VNG shall be required to retain title, ownership and management of all Gas Contracts[24] necessary to ensure the provision of reliable gas service at the least cost possible to Virginia customers. Currently-approved Gas Contract management affiliate arrangements through the Sequent AMAA & GPSA shall remain in place until further Commission action. VNG shall continue to keep the Commission informed of its gas supply objectives, plans, and actions through its quarterly AMAA/GPSA meetings with Staff.

(8) VNG shall file annually with its AIF or rate case application a Capital Expenditure Summary Report, using the format provided in Attachment A to the Stipulation, that compares budgeted to actual capital expenditures, for a period of five years after the approval of this Merger by the Commission.

(9) The Petitioners are directed that:

(a) The quality of service in VNG's service territory shall not deteriorate due to a lack of maintenance or capital investment;

(b) The quality of service in VNG's service territory shall not deteriorate due to a reduction in the number of employees providing services; and

(c) Southern, AGLR, and VNG shall maintain a high degree of cooperation with the Commission Staff and shall take all necessary action to ensure VNG's timely response to Staff inquiries with regard to its provision of natural gas distribution service in Virginia.

Financial Requirements

(10) Any consolidated AGLR capital structure presented in any VNG AIF or base rate application shall remove amounts attributable to Southern-AGLR merger-related costs, such as any acquisition premium, goodwill amounts and other items the Petitioners have agreed would not be borne by VNG customers. VNG may continue to present a consolidated AGLR capital structure both including and excluding Nicor Gas Company in such filings.

(11) Staff shall receive at least thirty (30) days' advance notification prior to any dividend payment by VNG, and all other requirements contained in the Order Granting Authority in Case No. PUE-2015-00120 remain in effect.

(12) Petitioners shall notify Staff of any credit rating downgrade of AGLR or AGL Capital Corporation within thirty days of its occurrence, provide Staff with an

[24] *See id.* at 14.

explanation of the reasons for such downgrade along with copies of any associated rating agency reports, and describe any measures and plans to restore such credit ratings.

Safety Requirements

(13) The Petitioners shall maintain, at a minimum, 215 employee positions that, in whole or in part, pertain to the requirements of the Commission's pipeline safety standards, as well as the Underground Utility Damage Prevention Act (§ 56-265.14 *et seq.* of the Code) for a period of five years after the approval of this Merger by the Commission and shall not degrade the competence level of the employee workforce as a result of the Merger.

(14) VNG shall maintain, at a minimum, the current number of critical valves (409 valves) for its existing system. The number of critical valves may change based on the future configuration of VNG's system. VNG shall continue to follow its Operations Procedure Manual ("OPM") relative to the designation and inspection of critical valves on its system. For a period of five years after this Merger is approved by the Commission, VNG shall submit an annual report to the Commission's Division of Utility and Railroad Safety ("Division") by April 1 of each calendar year documenting the number of critical valves on VNG's system as of the previous calendar year end and providing an explanation for any critical valves on VNG's system which were removed during the preceding calendar year.

(15) VNG shall continue to qualify its covered employees and contract employees in accordance with the Virginia Enhanced Operator Qualification Program ("Enhanced OQ Program") after the Merger. In addition, the Company shall revise its OPM and Emergency Plan procedures to conform to the Enhanced OQ Program.

(16) VNG shall continue to take reasonable and prudent actions to improve the effectiveness of the Company's damage prevention program.

(17) VNG shall continue to track the time from receiving the notice of unintentional releases of gas ("First Notification"), and "First Arrival" until testing verifies that no immediate hazard exists ("Make Safe"). VNG shall provide an annual report to the Division no later than April 1 of each calendar year containing the previous year's annual average time from First Notification to First Arrival, as compared to the previous three-year composite average. This reporting requirement shall continue for a period of five years after the Merger is approved by the Commission.

(18) VNG shall continue its voluntary commitment to develop and implement a pipeline safety management system in compliance with the American Petroleum Institute Recommended Practice ("API RP") 1173. VNG shall submit to the Division both its completed gap analysis and its assessment of the Company's

"safety culture" within one year from the date of the approval of this Merger by the Commission.

(19) VNG shall provide the Division an annual report no later than April 1 of each calendar year on the number of field hours spent by VNG employees on operations and maintenance activities as required by 49 C.F.R. Parts 191, 192 and 199, and on the contractor costs by activity in the format provided in the Petitioners' attachment in response to Staff Set 3-38, which is included on pages 51-52 of Part E of the Staff Report hereto. This reporting requirement shall continue for five years after the Merger is approved by the Commission.

(20) VNG shall continue to comply with safety record retention requirements under state and federal law following approval of the Merger and shall make any such records available to the Division promptly when requested.

(21) VNG shall submit notices of construction, which are accurate when submitted, in accordance with the requirements of the Commission Order in Case No. URS-2006-00531. VNG shall continue to submit notices, which are accurate when submitted, of Large Construction Projects to the Division for projects that exceed $100,000 in cost and submit them no less than 10 days before the estimated start date of the project. VNG shall continue to make reasonable efforts to inform the Division of changes in daily construction schedules.

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Research Update:

Southern Co. And Subsidiaries Outlook Revised To Negative On Proposed AGL Resources Inc. Acquisition; Ratings Affirmed

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Table Of Contents

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Research Update:

Southern Co. And Subsidiaries Outlook Revised To Negative On Proposed AGL Resources Inc. Acquisition; Ratings Affirmed

Overview

- U.S.-based Southern Co. recently announced a proposed acquisition of AGL Resources Inc.
- We are revising our rating outlook on Southern Co. and its subsidiaries to negative from stable.
- We are also affirming our ratings on the companies, including the issuer credit ratings.
- The negative outlook reflects the potential for greater financial risk throughout the Southern organization because of the proposed heavily debt financed acquisition of AGL, which could result in downgrades if the transaction combines with other setbacks to weaken Southern's "significant" financial risk profile.

Rating Action

On Aug. 24, 2015, Standard & Poor's Ratings Services revised its rating outlook on Southern Co. and the company's subsidiaries to negative from stable. At the same time, we affirmed our ratings on the companies, including the issuer credit ratings.

Rationale

The proposed acquisition of AGL offers a slight improvement to our "excellent" business risk profile assessment of Southern by adding a modicum of very low-risk natural gas local distribution companies to the company's [illegible] regulated, integrated electric utility properties. Adding AGL would provide operating and regulatory diversification benefits and diffuse the effect of [illegible] higher-risk activities on a much bigger platform. However, these benefits could be [illegible] offset by the proposed debt-heavy funding of the [illegible]. Southern has not released details of the plan, but it appears that the company plans to issue about [illegible] billion of common equity over a very extended [illegible] (through [illegible]) to cover the [illegible] billion transaction.

[illegible] of the transaction [illegible] debt could fall to the [illegible] from the [illegible]

[illegible] risk [illegible] regulatory

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approvals could distract Southern's management at a critical time in the company's Kemper and Vogtle construction projects. Completing Kemper and getting the costs permanently into rates, and pressing on in the crucial halfway point for the nuclear construction, are challenging without the considerable diversion of Southern senior management's time and attention for regulatory and integration efforts at AGL. Any missteps on those high-profile endeavors in the midst of the AGL merger process could pressure ratings.

Liquidity

We consider Southern's liquidity, as measured on a consolidated basis, to be "adequate" under our corporate liquidity methodology. Our assessment includes the following expectations and assumptions:

- Projected liquidity sources will exceed uses by more than 1.1x;
- The company has the ability to absorb high impact, low-probability events with limited need for refinancing; and
- The company has flexibility to lower capital spending or sell assets, sound bank relationships, solid standing in credit markets, and generally prudent risk management.

The principal liquidity sources include the following:

- Our forecast of FFO of about $5.3 billion and cash of about $1.1 billion;
- Total credit facility of about $5.5 billion; and
- Availability of Department of Energy financing for the Vogtle construction, which we factored into our assessment.

The principal liquidity uses include the following:

- Capital spending of at least $4.6 billion,
- About $2.2 billion in dividends, and
- Debt maturities of $4.4 billion.

Group Influence

Under the group rating methodology criteria, we view Southern as the parent of a group that includes "core" subsidiaries (GPC, Gulf Power Co., and Alabama Power Co.), a "highly strategic" subsidiary (MPC), and a "strategically important" subsidiary (Southern Power). The 'a-' consolidated credit profile of Southern, as parent of the group, becomes the group credit profile and leads to an 'A-' issuer credit rating.

Outlook

The negative outlook on Southern and its subsidiaries reflects our baseline projections that the organization's regulated electric utility and merchant power operations will continue generating sufficient cash flow to consistently achieve credit measures that support the "significant" financial risk profile assessment, including FFO to debt of approximately 13%. We expect Southern's financial condition to erode slightly due to the AGL transaction as its large capital spending program, which includes construction of new nuclear plants in

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Georgia and an integrated gasification combined-cycle unit in Mississippi, peaks in 2015 and winds down over the rest of the decade.

Downside scenario

We could lower the ratings on Southern and its subsidiaries if the regulatory and plant construction issues at Georgia Power Co. (GPC) and Mississippi Power Co. (MPC) worsen and that risk, in conjunction with the AGL merger process, materializes in deterioration in credit measures, including FFO to debt consistently below 16%. Outsized growth at merchant power subsidiary Southern Power Co. could also eventually lead to a downgrade if it is substantial enough to change our view of the consolidated company's business risk.

Upside scenario

Given the AGL merger, the company's large planned capital spending program of almost $15 billion over the next three years, the elevated construction risk with nuclear and integrated gasification combined cycle (IGCC) projects, and the uncertainty over the ultimate ratemaking treatment of those projects, we would not expect to raise the ratings until those issues are resolved. The organization's core credit metrics would have to improve to a level that supports an "intermediate" financial risk profile, such as FFO to debt durably above 23%.

Ratings Score Snapshot

Corporate credit rating: A-/Negative/A-2

Business risk: Excellent
- Country risk: Very low
- Industry risk: Very low
- Competitive position: Strong

Financial risk: Significant
- Cash flow/leverage: Significant

Anchor: a

Modifiers
- Diversification/portfolio effect: Neutral
- Capital structure: Neutral
- Financial policy: Neutral
- Liquidity: Adequate
- Management and governance: Satisfactory
- Comparable rating analysis: Neutral

Stand-alone credit profile: a

Group credit profile: a

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Related Criteria And Research

Related Criteria

- Corporate Methodology, Nov. 19, 2013
- Group Rating Methodology, Nov 19, 2013
- Use Of CreditWatch And Outlooks, Sept. 14, 2009

Ratings List

Ratings Affirmed; Outlook Action

	To	From
Southern Co.		
Gulf Power Co.		
Georgia Power Co.		
Alabama Power Co.		
Corporate Credit Rating	A-/Negative/A 2	A /Stable/A-2
Mississippi Power Co.		
Southern Power Co.		
Corporate Credit Rating	BBB+/Negative/A 2	BBB+/Stable/A-2
Southern Co. Services Inc.		
Southern Electric Generating Co		
Corporate Credit Rating	A-/Negative/	A-/Stable/--

Ratings Affirmed

Alabama Power Capital Trust V	
Preferred Stock	BBB
Alabama Power Co.	
Senior Unsecured	A
Preferred Stock	BBB
Preference Stock	BBB
Commercial Paper	A-2
Georgia Power Co.	
Gulf Power Co.	
Senior Unsecured	A-
Preferred Stock	BBB
Preference Stock	BBB
Mississippi Power Co.	
Senior Unsecured	BBB+
Preferred Stock	BBB
Southern Co.	

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Southern Power Co.	
Senior Unsecured	BBB+
Commercial Paper	A-2
Southern Company Capital Funding Inc.	
Senior Unsecured	BBB+
Southern Company Capital Trust II	
Preferred Stock	BBB
Southern Company Funding Corp.	
Commercial Paper	A-2
Southern Electric Generating Co.	
Senior Unsecured	A

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STAFF RFI 2-17:

Refer to the John Reed testimony, page 62, lines 10 through 23, and page 63, lines 1 through 7. If any of the mergers involved parties with significant levels of non-utility businesses, please provide all rating agency reports analyzing the transaction, as well as all regulatory conditions required by the state commissions.

RESPONSE:

The referenced section of John Reed's testimony discusses five utility transactions: (1) Southern Company's August 2015 acquisition of AGL Resources, Inc.; (2) Black Hills Corporation July 2015 acquisition of SourceGas Holdings LLC; (3) The Laclede Group, Inc.'s April 2014 acquisition of Alabama Gas Corporation; (4) AltaGas Ltd.'s February 2012 acquisition of SEMCO Holdings Corporation; and (5) Duke Energy Corporation's January 2011 acquisition of Progress Energy, Inc.

The following were the percentages of non-utility revenues and assets for each of the companies referenced above, as reported in each company's SEC Form 10-K for the year ended prior to the announcement of the merger. Of the companies, AGL Resources, Inc. ("AGL"), AltaGas Ltd. ("AltaGas") and Duke Energy Corporation ("Duke") had the highest percentage of non-utility revenues and assets. While those utilities do not necessarily have "significant levels of non-utility businesses," in order to be responsive to the RFI Mr. Reed is providing Standard & Poor's, Moody's Investor Service's, and Fitch Ratings' reports regarding those transactions and regulatory commission orders (with regulatory conditions, where applicable) approving the Southern Company/AGL, AltaGas/SEMCO Holdings Corporation and Duke/Progress Energy, Inc. transactions. Please see voluminous Attachments items 1-3. The response to this request is voluminous as noted in the attached voluminous index. In addition, Mr. Reed notes that, as described in the testimony of NextEra Energy witness Totten, NextEra Energy does not have significant levels of non-utility businesses in ERCOT. Specifically, as noted by Mr. Totten (at page 4), "the size of NextEra Energy's wholesale generation and retail electric provider ("REP") subsidiaries in ERCOT is significantly smaller than Oncor's prior wholesale generation and retail affiliates, i.e., 1/60th of the size in the case of effective installed generating capacity in ERCOT and one-fourth of the size in the case of ERCOT retail sales."

Company	% of Non-Utility Business (revenue)	% of Non-Utility Business (assets)
Southern Company	6.0%	8.9%
AGL Resources, Inc.	25.7%	19.2%
Black Hills Corporation	5.6%	14.6%
SourceGas Holdings LLC	Note [1]	Note [1]
The Laclede Group, Inc.	16%	5%
Alabama Gas Corporation	0%	0%
AltaGas Ltd.'s	89.5%	76.8%

SEMCO Holdings Corporation	Note [2]	Note [2]
Duke Energy Corporation's	25.7% [3]	23.5% [3]
Progress Energy, Inc.	0.1%	12.4%

[1] SourceGas Holdings LLC ("SourceGas") was privately-held prior to the Black Hills Corporation transaction. In an investor presentation discussing the transaction, SourceGas was described as having natural gas utility customers, and distribution and transmission intrastate pipelines, indicating 100% utility operations.

[2] Per SEMCO Holding Corporation's Unaudited Financial Statements for the period ended June 30, 2012, "SEMCO Energy, Inc. ("SEMCO") is a regulated public Utility headquartered in Port Huron, Michigan."

[3] Includes Duke Energy Ohio's regulated generation in Ohio - revenues, and assets for which are not separately provided in Duke's 10-K.

This response was prepared by or under the direct supervision of John Reed, Chairman and CEO of Concentric Energy Advisors, Inc.

VOLUMINOUS INDEX

1. Moody's Rating Agency Reports, Fitch Rating Agency Reports, Standard & Poor's Rating Agency Reports, and Regulatory Commission Orders for AltaGas-SEMCO, pages 1-46

2. Moody's Rating Agency Reports, Fitch Rating Agency Reports, Standard & Poor's Rating Agency Reports, and Regulatory Commission Orders for Duke-Progress, pages 1-228

3. Moody's Rating Agency Reports, Fitch Rating Agency Reports, Standard & Poor's Rating Agency Reports, and Regulatory Commission Orders for SO-AGL , pages 1-263

STAFF RFI 2-18:

Refer to the John Reed testimony, page 62, lines 10 through 23, and page 63, lines 1 through 7. If any of the mergers involve acquirers using high levels of debt leverage to finance the transaction, please provide all rating agency reports analyzing the transaction, as well as all regulatory conditions required by the state commissions.

RESPONSE:

The referenced section of John Reed's testimony discusses five utility transactions: (1) Southern Company's August 2015 acquisition of AGL Resources, Inc. ("AGL"); (2) Black Hills Corporation July 2015 acquisition of SourceGas Holdings LLC; (3) The Laclede Group, Inc.'s April 2014 acquisition of Alabama Gas Corporation; (4) AltaGas Ltd.'s February 2012 acquisition of SEMCO Holdings Corporation; and (5) Duke Energy Corporation's January 2011 acquisition of Progress Energy, Inc.

Of those transactions, only Southern Company's acquisition of AGL Resources, Inc. involved debt consideration that was more than 50% of the consideration provided in the merger. Please see the response to Staff RFI 2-17 for Standard & Poor's, Moody's Investor Service's, and Fitch Ratings' reports regarding the Southern Company/AGL transaction and regulatory commission orders (with regulatory conditions, where applicable) approving the transaction.

This response was prepared by or under the direct supervision of John Reed, Chairman and CEO of Concentric Energy Advisors, Inc.

Staff RFI 5-16:
Refer to the NEE response to Staff 1-19. Please explain why Oncor does not plan to use a commercial paper program to fund its future temporary cash needs. Please compare potential Oncor commercial paper interest costs to that of Oncor's credit facility.

RESPONSE:
As described in Oncor's response to Staff RFI Set No. 1 (NEE), Question No. 1-19, it is anticipated that Oncor will retain its revolving credit facility following the close of the Proposed Transactions. Subsequent to the transaction close, if the Company's credit rating profile improves to a level that will support utilizing an effective commercial paper program, Oncor will evaluate the then current bank and commercial paper markets. As appropriate, Oncor will opt to fund its short-term cash needs through the market that best optimizes the cost and availability of funds.

Oncor's current cost to borrow from its credit facility is one-month LIBOR plus 100 basis points, or approximately 1.75% based on current rates. Comparable rates on a fully liquid A2/P2 commercial paper program (which Oncor would not qualify for at present) would be expected to be lower, on a relative basis.

This response was prepared by or under the direct supervision of Mark Hickson, Senior Vice President of Corporate Development, Strategy, and Integration.

Staff RFI 5-27:
Refer to the NEE response to Staff 2-16. Please confirm that the debt issued to finance the Proposed Transactions will be obligations of NEECH. Please also confirm whether NEE will guarantee this debt, as it does for other NEECH debt.

RESPONSE:
NextEra Energy ("NEE") guarantees certain payment obligations of NextEra Energy Capital Holdings ("NEECH"), including most of those under NEECH's debt, including all of its debentures and commercial paper issuances, as well as most of its payment guarantees and indemnifications. The debt issued to finance the Proposed Transactions will be an obligation of NEECH that is guaranteed by NEE.

This response was prepared by or under the direct supervision of Mark Hickson, Senior Vice President of Corporate Development, Strategy, and Integration of NextEra Energy and John J. Reed, Chairman and CEO of Concentric Energy Advisors.

Staff RFI 5-30:
Refer to the NEE response to TIEC RFI 1-4, page 117. "NextEra will fund its portion of the transaction of about 9.5 Billion with debt, $1.5 Billion of equity units, and asset sale proceeds." Please compare and contrast this S&P representation with NEE's response to Staff 1-16 regarding transaction financing.

RESPONSE:
NextEra Energy has no responsive documents, as the Company has not performed an analysis that compares and contrasts S&P's statement as identified above with NextEra Energy's response to Staff RFI 1-16. Although no such document exists, the components of the overall financing that have been completed are detailed in NextEra Energy's response to subpart (a) of Staff RFI 1-16 and are consistent with S&P's statement above, which specifically addresses the acquisition of EFH/EFIH. As detailed in subpart (a) to NextEra Energy's response to Staff RFI 1-16, on August 8, 2016, NextEra Energy issued the $1.5 billion of equity units as identified in S&P's statement to fund a portion of the proposed acquisition of EFH/EFIH. Additionally, NextEra Energy has sold some of its non-core assets as a means of recycling capital into these Proposed Transactions. These asset sales included NextEra Energy's Marcus Hook, which is comprised of two gas-fired generation assets, and FiberNet, which is a fiber optics business, for total combined gross proceeds of roughly $2.3 billion.

Separately, on November 1, 2016, NextEra Energy entered into a forward sale agreement in which it committed to issue 12 million shares of common equity by no later than November 1, 2017, in exchange for approximately $1.5 billion, which will be used to fund a portion of the TTHC/TTI acquisition.

Although not yet finalized, the remaining amounts are expected to be funded primarily with debt, as indicated in S&P's statement referenced above in NextEra Energy's response to Staff RFI 5-30. The ultimate financing plan will be determined in such a manner that will allow NextEra Energy to maintain its strong credit ratings which should allow Oncor to be upgraded with all three of the credit rating agencies post transaction closing.

This response was prepared by or under the direct supervision of Mark Hickson, Senior Vice President of Corporate Development, Strategy, and Integration

Staff RFI 5-31:
Refer to the NEE response to TIEC RFI 1-4, page 147. "The $11 billion dollars of NEECH holdco debt is structurally subordinated to $10 billion of non-recourse debt, mostly at NEER's Power projects. (NEECH holdco debt is also structurally subordinated to $11 billion of debt at FPL)." Please explain the structural subordination and relationship of the NEECH debt that is expected to finance the transactions and its structural relationship to each of the existing debt financing categories listed above.

RESPONSE:
NextEra Energy Capital Holdings ("NEECH"), a direct wholly-owned subsidiary of NextEra Energy ("NEE"), is the non-EFH, non-Oncor NEE affiliate that will be issuing debt used in conjunction with the Proposed Transactions and is the debt-financing entity of NEE. NEE guarantees certain payment obligations of NEECH, including most of those under NEECH's debt, including all of its debentures and commercial paper issuances, as well as most of its payment guarantees and indemnifications.

Therefore, NEECH creditors should be considered as though they benefit from all of NEE subsidiaries' cash flows, not just those of NEECH's subsidiaries. As such, NEECH creditors are effectively NEE creditors, with NEE being the utility holding company.

Utility holding companies generally have no operations, and assets that are limited to equity interests in its operating company subsidiaries. Structural subordination refers to the typically junior claim of holding company creditors, relative to the operating company creditors that have a more direct claim on the respective operating company's cash flows and assets because of the corporate legal structure.

NEE receives cash flows from its subsidiaries, which are principally NextEra Energy Resources ("NEER"), a wholly-owned subsidiary of NEECH, and Florida Power & Light Company ("FPL"). These cash flows are largely made from the net income of NEER's power projects after it services its non-recourse project debt at the NEER operating company subsidiaries, and the net income of FPL after it services its first mortgage bond debt at FPL, also an operating company. As a result, NEE, and therefore NEECH, are structurally subordinated to the $10 billion of non-recourse debt that is mostly at NEER's power projects and the $11 billion of first mortgage bond debt at FPL.

This response was prepared by or under the direct supervision of Mark Hickson, Senior Vice President of Corporate Development, Strategy, and Integration.

Staff RFI 5-32:
Refer to the NEE response to TIEC RFI 1-4, page 150. "NextEra will also incur roughly $10 billion of debt in acquiring the debt of Oncor's bankrupt parent Energy Future Holdings Corp. and could raise the percentage of debt at the holding company level a few percentage points above the 40% Moody's assumes longer-term, but the equity unit conversions in 2018 and 2019 will help to reduce that metric."

Please explain the differences between Moody's belief that NEE debt will be in the low 40's percent of its capital structure, while the response to Staff 1-62 states that NEE is targeting a future 60% debt level.

RESPONSE:
Moody's reference to 40% debt at the holding company is not the same as NextEra Energy holding company level's capital structure, for which NextEra Energy previously indicated that it is targeting 60% debt. The 60% debt level targeted by NextEra Energy is the sum of short-term and long-term debt divided by the sum of short-term debt, long-term debt, and total equity (or total capitalization). The 40% NextEra Energy debt level referenced by Moody's is the total NEECH holding company debt divided by total NextEra Energy consolidated debt, which includes the debt of all of NextEra Energy's subsidiaries.

This response was prepared by or under the direct supervision of Mark Hickson, Senior Vice President of Corporate Development, Strategy, and Integration.

VOLUMINOUS INDEX

1. Moody's Investors Service Credit Focus document titled "Oncor Electric Delivery Company LLC: FAQs", dated October 24, 2013, 14 pages.

2. Fitch Ratings document titled "Fitch Affirms Oncor's IDR At 'BBB'; Outlook Stable", dated August 12, 2013, 3 pages.

3. Standard & Poor's Research document titled "Oncor Electric Delivery Co. LLC", dated May 14, 2013, 8 pages.

4. Fitch Ratings document titled "Fitch Rates Oncor's Senior Secured Notes Reopening 'BBB+'; Outlook Stable", dated May 10, 2013, 2 pages.

5. Moody's Investors Service document titled "Credit Opinion: Oncor Electric Delivery Company LLC", dated February 27, 2013, 6 pages.

6. Standard & Poor's Research document titled "Oncor Electric Delivery Co. LLC", dated February 15, 2013, 5 pages.

7. Standard & Poor's Research document titled "S&P Takes Rating Action on 23 U.S. Issuers After Revising Criteria For Recovery Ratings On Utility First Mortgage Bonds", dated February 14, 2013, 5 pages.

8. Standard & Poor's Ratings Services RatingsDirect document titled "Oncor Electric Delivery Co. LLC", dated August 27, 2012, 12 pages.

9. Fitch Ratings document titled "Fitch Affirms Oncor's IDR At 'BBB'; Outlook Stable", dated August 15, 2012, 3 pages.

10. Moody's Investors Service document titled "Credit Opinion: Oncor Electric Delivery Company LLC", dated August 14, 2012, 7 pages.

11. Moody's Investors Service document titled "Ratings Action: Moody's downgrades Energy Future Holdings and Oncor Electric Delivery; outlooks remain negative", dated August 9, 2012, 7 pages.

12. Moody's Investors Service Issuer Comment titled "Oncor's Dividend Increase to Parent EFH Is Credit Negative", dated August 2, 2012, 2 pages.

13. Fitch Ratings document titled "Fitch Rates Oncor's New Senior Secured Notes 'BBB+'; Outlook Stable", dated May 21, 2012, 2 pages.

14. Moody's Investors Service document titled "Issuer Comment: Oncor's Debt Issuance and Expanded Credit Facility Protect Against Parent Contagion Risk", dated May 18, 2012, 3 pages.

15. Moody's Investors Service document titled "Credit Opinion: Oncor Electric Delivery Company LLC", dated March 1, 2012, 6 pages.

VOLUMINOUS INDEX

16. Moody's Investors Service document titled "Announcement: Moody's changes Oncor Electric Delivery Company LLC's rating outlook to negative from stable", dated February 27, 2012, 5 pages.

17. Standard & Poor's Research document titled "Summary: Oncor Electric Delivery Co. LLC", dated February 6, 2012, 6 pages.

18. Fitch Ratings Corporates document titled "Oncor Electric Delivery Company, LLC Full Rating Report", dated December 15, 2011, 9 pages.

19. Moody's Investors Service document titled "Oncor Electric Deliveyr Company LLC", dated June 1, 2011, 5 pages.

20. Fitch Ratings document titled "Fitch Upgrades Oncor to 'BBB'; Outlook Stable", dated August 26, 2011, 2 pages.

21. Standard & Poor's Research document titled "Summary: Oncor Electric Delivery Co. LLC", dated August 10, 2011, 11 pages.

22. Standard & Poor's Research document titled "Credit FAQ: A Primer On the Relationship Between Oncor Electric and Energy Future Holdings", dated April 7, 2011, 6 pages.

23. Standard & Poor's Research document titled "Summary: Oncor Electric Delivery Co. LLC", dated March 28, 2011, 6 pages.

24. Fitch Ratings Corporates document titled "Oncor Electric Delivery Co., LLC", dated April 21, 2010, 5 pages.

25. Moody's Investors Service document titled "Announcement: Moody's assigns Baa1 senior secured rating for Oncor: affirms ratings", dated Septemer 8, 2010, 3 pages.

26. Fitch Ratings Press Release document titled "Fitch Rates Oncor Electric Delivery's $475MM 5.25% Secured Notes 'BBB'", dated September 9, 2010, 2 pages.

27. Standard & Poor's Global Credit Portal RatingsDirect document titled "Research Update: Oncor Electric Delivery Co. LLC's Senior Secured Debt Rating Raised to 'A-' From 'BBB+', '1' Recovery Rating Assigned", dated September 8, 2011, 7 pages.

28. Standard & Poor's Global Credit Portal RatingsDirect document titled "Oncor Electric Delivery Co. LLC", dated August 13, 2010, 9 pages.

29. Moody's Investors Service document titled "Credit Opinion: Oncor Electric Delivery Company", dated April 29, 2010, 4 pages.

30. Standard & Poor's RatingsDirect document titled "Oncor Electric Delivery Co. LLC", dated August 20, 2009, 8 pages.

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31. Moody's Investors Service Global Credit Research Credit Opinion document titled "Credit Opinion: Oncor Electric Delivery Company", dated June 3, 2009, 5 pages.

32. Moody's Investors Service Global Credit Research Rating Action document titled "Rating Action: Oncor Electric Delivery Company", dated June 1, 2009, 2 pages.

33. Fitch Ratings Corporates document titled "Global Power U.S. Credit Update - Oncor Electric Delivery Company", dated April 27, 2009, 2 pages.

34. Moody's Investors Service Global Credit Research Rating Action document titled "Rating Action: Oncor Electric Delivery Company", dated February 24, 2009, 3 pages.

35. Standard & Poor's RatingsDirect document titled "Bulletin: Oncor Electric Delivery's $900 Mil. Goodwill Impairment Will Not Affect Ratings", dated February 23, 2009, 2 pages.

36. Fitch Ratings document titled "Fitch Rates Oncor's Expected Sr. Secured Notes 'BBB; Outlook Stable", dated September 2, 2008, 1 page.

37. Moody's Investors Service Global Credit Research Credit Opinion document titled "Credit Opinion: Oncor Electric Delivery Company", dated August 29, 2008, 5 pages.

38. Moody's Investors Service Global Credit Research Rating Action document titled "Rating Action: Oncor Electric Delivery Company", dated August 28, 2008, 2 pages.

39. Fitch Ratings document titled "Fitch: Oncor & Energy Future Holding Ratings Unaffected On 20% Ownership Stake Sale", dated August 13, 2008, 2 pages.

40. Standard & Poor's RatingsDirect document titled "Research Update: Oncor Electric Delivery Upgraded to 'BBB+', Off Watch On Planned Sale of Company's 20% Share", dated August 13, 2008, 5 pages.

41. Moody's Investors Service Global Credit Research Issuer Comment document titled "Issuer Comment: Oncor Electric Delivery Company", dated August 13, 2008, 2 pages.

42. Moody's Investors Service Global Credit Research document titled "Covenant Quality Assessment Preliminary - TXU Electric Delivery Company", dated March 13, 2007, 8 pages.

43. Moody's Investors Service document titled "LGD Assessment: Oncor Electric Delivery", Model Produced date of May 16, 2008, 1 page.

44. Moody's Investors Service Global Credit Research Issuer Comment document titled "Issuer Comment: Oncor Electric Delivery Company", dated May 16, 2008, 2 pages.

45. Fitch Ratings Corporates document titled "Global Power U.S. and Canada Credit Analysis - Oncor Electric Delivery Co., LLC", dated January 28, 2008, 5 pages.

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46. Moody's Investors Service Global Credit Research Credit Opinion document titled "Credit Opinion: Oncor Electric Delivery Company", dated October 10, 2007, 5 pages.

47. Fitch Ratings Corporate Finance document titled "Global Power/North America Credit Update - TXU Electric Delivery Company", dated February 1, 2007, 3 pages.

48. Standard & Poor's RatingsDirect document titled "Research TXU Electric Delivery Co", dated January 20, 2006, 4 pages.

49. Standard & Poor's RatingsDirect Research titled "Summary: TXU Electric Delivery Co", dated September 29, 2006, 3 pages.

50. Moody's Investors Service Global Credit Research Credit Opinion document titled "Credit Opinion: TXU Electric Delivery Company", dated September 19, 2006, 3 pages.

51. Moody's Investors Service Global Credit Research Liquidity Risk Assessment document titled "Liquidity Risk Assessment: TXU Electric Delivery Company", dated September 14, 2006, 2 pages.

1

MOODY'S INVESTORS SERVICE

CREDIT FOCUS

[illegible]

RATINGS

Oncor Electric Delivery Company LLC:

Senior Secured	Baa3
Outlook	Stable

KEY INDICATORS

	2011	2012	LTM Q2 2013
[illegible]	[illegible]	[illegible]	[illegible]
[illegible] Debt	[illegible]	[illegible]	[illegible]
[illegible] Debt	[illegible]	[illegible]	[illegible]
[illegible]	[illegible]	[illegible]	[illegible]

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Oncor Electric Delivery Company LLC: FAQs

Assessing the contagion risk associated with a bankruptcy filing at parent Energy Future Holdings

» **Would Oncor Electric Delivery Co. LLC's (Baa3 stable) ring-fence-like protections prevail through a contested Energy Future Holdings Corp. (EFH; Caa3) bankruptcy?** We think so. Oncor's suite of ring-fence-like protections, together as a whole, lead us to conclude that a bankruptcy court would be hard-pressed to decide that Oncor can be swept into a filing.

» **What are the principal factors in the ring fence that protect Oncor?** Our view that the ring fence would hold is based on three factors: the corporate structure of Oncor; specific language in certain EFH and Energy Future Intermediate Holding Co. (EFIH; Caa1 negative) bond indentures; and the behavior of Oncor since EFH's leveraged buyout (LBO) in late 2007.

» **What happens to Oncor if or when EFH files for bankruptcy?** Very little, we think. If or when EFH does file, we expect Oncor would be only modestly hit around the edges.

» **Would the bankruptcy filing result in a change of control for Oncor, and what would regulators think about that?** We think the Public Utility Commission of Texas (PUCT) would have a voice in the restructuring, even if it doesn't technically have a seat at the table. We think a restructuring of EFH would lead to an ultimate recovery for creditors whereby a material amount of the equity of EFH would change hands from the original LBO sponsors to the creditors, which would be viewed by the PUCT as a change of control. We also think the PUCT would be very interested in any restructuring alternatives whereby Oncor were separated from the EFH family, especially if such a separation involved another strategic T&D operator.

» **What if Oncor gets pulled into a bankruptcy?** We believe that Oncor's senior secured bondholders would receive 100% as their ultimate recovery, if our historical default and recovery analysis holds. For example, if the bankruptcy proceeding at Pacific Gas & Electric Co. (A3 stable) can be used as a precedent, secured bondholders might also continue to receive their debt-service payments in a timely manner, with no disruptions.

Testing the ring fence

Oncor Electric Delivery Company LLC's (Baa3 stable) suite of ring-fence-like protections, which are specifically designed to insulate the utility from its highly leveraged parent, **Energy Future Holdings Corp.** (**EFH**; Caa3), and affiliate, Texas Competitive Electric Holdings Co. LLC (**TCEH**; Ca), will soon be tested in bankruptcy court, possibly as soon as 31 October.

We still think these protections will withstand any assaults by disgruntled creditors, even if a bankruptcy filing turned out to be highly disorganized and contentious, a scenario which we think is unlikely. Our view that the ring fence holds is based on three factors: the corporate structure of Oncor; specific language in certain EFH and Energy Future Intermediate Holding Co. (EFIH; Caa1 negative) bond indentures; and the behavior of Oncor since EFH's leveraged buyout in late 2007.

In the pages that follow, we address some of the most frequent questions investors ask us about Oncor and what the fallout from an EFH bankruptcy might look like.

Will Oncor's ring-fence-like protections prevail through a contested EFH bankruptcy?

We think so. Oncor's suite of ring-fence-like protections, together as a whole, lead us to conclude that a bankruptcy court would be hard-pressed to decide that Oncor can be swept into a filing.

But we aren't lawyers. While Oncor is a separate entity, EFH owns 80% of it. The minority investors own the other 20%, which includes significant special corporate governance rights and provides important protections to Oncor. Still, if Oncor were subject to bankruptcy-court jurisdiction, it could get pulled into the restructuring process to help allocate recovery value across EFH's creditors if a bankruptcy-court judge decides that is the best course of action for the overall estate value of EFH. **Oncor discloses this risk in its public documents,[1] as noted below:**

Our ring-fencing measures may not work as planned and a bankruptcy court may nevertheless subject Oncor to the claims of its affiliates' creditors.

As discussed above, to enhance the separateness between the Oncor Ring-Fenced Entities and the Texas Holdings Group and our credit quality, various legal, financial and contractual provisions were implemented. These enhancements are intended to minimize the risk that a court would order any of the Oncor Ring-Fenced Entities' assets and liabilities to be substantively consolidated with those of any member of the Texas Holdings Group in the event that a member of the Texas Holdings Group were to become a debtor in a bankruptcy case. Substantive consolidation is an equitable remedy in bankruptcy that results in the pooling of the assets and liabilities of the debtor and one or more of its affiliates solely for purposes of the bankruptcy case, including for purposes of distributions to creditors and voting on and treatment under a reorganization plan. Bankruptcy courts have broad equitable powers, and as a result, outcomes in bankruptcy proceedings are inherently difficult to predict. To the extent a bankruptcy court were to determine that substantive consolidation is appropriate under the facts and circumstances, then the assets and liabilities of any Oncor Ring-Fenced Entity that is subject to the substantive consolidation order would be available to help satisfy the debt or contractual obligations of the Texas Holdings Group entity that is a debtor in bankruptcy and subject to the same substantive consolidation order. If any Oncor Ring-Fenced Entity were included in such a substantive consolidation order, the secured creditors of Oncor would retain their liens and priority with respect to Oncor's assets.

[1] See risk factors in SEC form 10-K, 2013.

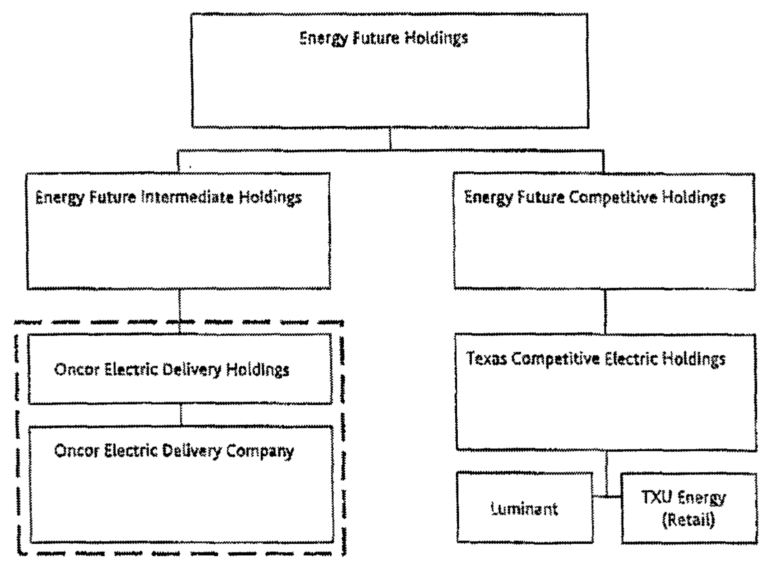
If any member of the Texas Holdings Group were to become a debtor in a bankruptcy case, there can be no assurance that a court would not order an Oncor Ring-Fenced Entity's assets and liabilities to be substantively consolidated with those of such member of the Texas Holdings Group or that a proceeding would not result in a disruption of services we receive from, or jointly with, our affiliates. See Note 1 to Financial Statements for additional information on our ring fencing measures.

So why don't we think this will pull Oncor in? Because the body of evidence that makes up the ring fence seems pretty solid. Creditor proposals disclosed to date[2] do not envision the pursuit of Oncor, nor does the EFH proposal disclosed in April 2013. We think a bankruptcy court will not be interested in setting a new precedent with respect to this particular bankruptcy filing, in part due to the amount of EFH's debt outstanding and the complexity of its capital structure.

What are the principal factors in the ring fence that protect Oncor?

We think Oncor is protected in three ways. First, there is the corporate organizational structure. EFH's complex corporate structure, which separates Oncor from EFH by an intermediate holding company, was created to prevent EFH from piling debt onto the utility and, by extension, to keep Oncor out of trouble in the event of a bankruptcy at EFH or at any of Oncor's affiliates.

EXHIBIT 1
Simplified organizational structure



Sources: Energy Future Holdings Corp., Moody's

2 See EFH SEC form 8-K dated October 15, 2013.

Another way the corporate structure protects Oncor: Oncor's LLC operating agreement specifically states that Oncor's business and affairs will be managed by its own board of directors and not by EFH or its management.

Moreover, there is the existence of the minority investors and independent board members. The sale of the minority stake in Oncor in 2008 allows the minority investors two board seats out of 11, and they have veto power over certain conditions. Specifically, they have the right to veto changes in dividend policy and an ability to block distributions, as well as the right to veto certain budget revisions in capital expenditures and operations and maintenance expenses, certain acquisitions, and certain material transactions.

In our opinion, the rights of the independent board members and the minority investors strengthen an already strong set of governance rules, which include a unanimous vote on amendments to certain provisions of the Oncor LLC agreement (e.g., purpose and powers of the company, certain provisions relating to the board, and most separateness undertakings) and material actions (e.g., mergers and substantial asset transfers, initiation of insolvency proceedings, liquidation without providing for payment of all creditors).

Second, specific language in the indentures on EFH's and EFIH's bonds acknowledge a separation between Oncor and EFH, along with language in EFH's disclosure related to the deconsolidation of Oncor. **Here is an excerpt of the indenture language:**

The Holders of the Notes, by accepting the Notes, acknowledge (i) the legal separateness of the Issuer and the Guarantors from the Oncor Subsidiaries, (ii) that the lenders under the Oncor Electric Delivery Facility and the noteholders under Oncor's existing debt instruments have likely advanced funds thereunder in reliance upon the separateness of the Oncor Subsidiaries from the Issuer and the Guarantors, (iii) that the Oncor Subsidiaries have assets and liabilities that are separate from those of the Issuer and its other Subsidiaries, (iv) that the obligations owing under the Notes are obligations and liabilities of the Issuer and the Guarantors only, and are not the obligations or liabilities of any Oncor Subsidiary, (v) that the Holders of the Notes shall look solely to the Issuer and the Guarantors and their assets, and not to any assets, or to the pledge of any assets, owned by any Oncor Subsidiary, for the repayment of any amounts payable pursuant to the Notes and for satisfaction of any other obligations owing to the Holders under this Indenture, the Registration Rights Agreement and any related documents and (vi) that none of the Oncor Subsidiaries shall be personally liable to the Holders of the Notes for any amounts payable, or any other obligation, under this Indenture, the Registration Rights Agreement or any related documents.

The Holders of the Notes, by accepting the Notes, shall acknowledge and agree that the Holders of the Notes shall not (i) initiate any legal proceeding to procure the appointment of an administrative receiver or (ii) institute any bankruptcy, reorganization, insolvency, winding up, liquidation, or any like proceeding under applicable law, against any Oncor Subsidiary, or against any of the Oncor Subsidiaries' assets. The Holders further acknowledge and agree that each of the Oncor Subsidiaries is a third party beneficiary of the foregoing covenant and shall have the right to specifically enforce such covenant in any proceeding at law or in equity.

Third, there is the corporate behavior of Oncor since EFH's leveraged buyout in October 2007. Oncor has taken extraordinary steps to separate itself from EFH, including separating numerous business functions, such as maintaining separate books and records, separate payroll and billing systems, maintaining separate relationships with legislators and regulators, and moving into a separate headquarters building. In addition, Oncor's aggressive investment in the Competitive Renewable Energy Zone (CREZ) transmission assets is a materially independent corporate decision, in our view, since the program helps grow the value of Oncor at the expense of EFH's unregulated generation business. We would not be surprised if the greater CREZ region, which today is home to a significant amount of renewable wind-generation capacity, were to also invest heavily in utility-scale solar generation projects sometime in the future.

What happens to Oncor if or when EFH files for bankruptcy?

Very little, we think. If or when EFH does file, we expect Oncor would be only modestly hit around the edges.

The easiest financial impact to identify is that Oncor might be stuck with about a month's worth of receivables related to its affiliate, TXU Energy, the retail electric provider. TXU Energy represents about a third of Oncor's total revenue. At most, Oncor might find itself with a senior unsecured claim of around $150 million to $200 million. Unlike other transmission and distribution (T&D) utilities that are likely to experience a similar impact—including CenterPoint Energy Houston Electric LLC (Baa1 stable), AEP Texas North Co. (Baa2 positive), AEP Texas Central Co. (Baa2 positive) and Texas-New Mexico Power Co. (Baa2 positive)—Oncor will not be allowed to recover the loss from rate payers. The reason: At the time of the leveraged buyout, as part of its approval of the transaction, the PUCT specifically prohibited any potential recovery of losses[3] associated with Oncor's retail affiliate, TXU Energy.

Shortly after EFH (or its affiliates) files for bankruptcy protection and consistent with our rating practices, we would withdraw the ratings for all rated classes of debt that are affected by the filing. In this case, we think all the ratings for EFH, EFIH, Energy Future Competitive Holdings Co. (EFCH; Ca negative) and TCEH would be withdrawn. At the same time, we would also likely affirm the ratings and stable rating outlook for Oncor.

If Moody's is so confident that Oncor is protected from bankrupcty, why is the rating Baa3 senior secured and not higher?

Oncor's Baa3 senior secured rating reflects the highly leveraged capital structure at EFIH, Oncor's indirect parent; EFIH's heavy reliance on Oncor's upstream dividends to support EFIH's debt service; and EFH's heavy reliance on Oncor's upstream tax payments to support EFH's debt service, along with the interwoven cash-transfer relationship that remains between EFH and EFIH.

When we look at Oncor, we consider about $8.1 billion of parent company debt at EFIH and EFH (both of which look to Oncor for support in terms of collateral recovery, liquidity and debt service) to be a form of permanent leverage for Oncor, even though Oncor is not legally liable for the interest payments. We view this heavy reliance on Oncor to be permanent because EFH is actively seeking to create credit separateness between EFH and EFCH-TCEH, although that now appears unlikely to work. This heavy reliance on Oncor puts the company in a different risk category than its regulated T&D peers, and indirectly constrains Oncor's otherwise robust financial flexibility, a drag on the rating.

[3] See the PUCT, docket #34077, for the 14.101 order.

Oncor's stable rating outlook reflects the stability and predictability of its revenues and cash flows, its supportive regulatory environment and our expectation that Oncor will not be materially affected by any contagion risks of a default and restructuring at its EFCH-TCEH affiliate or EFH-EFIH parents, given the existing ring-fence-type arrangements.

If Oncor is excluded from a bankrupcty filing at EFH, will Moody's place Oncor on review for a possible upgrade?

Probably not right away. For now, our expectation is that we would affirm Oncor's Baa3 rating and stable rating outlook. Assuming our views regarding an organized and amenable restructuring prevail, and based on the facts surrounding how much debt is extinguished at EFIH and EFH, some form of positive rating actions would quickly become more likely. That said, only a rating committee can determine the specifics of any rating action.

If, on the other hand, the restructuring turns out to be disorganized and contentious, clarity into debt extinguishment at EFIH and EFH will decrease. Moreover, the likelihood of a disgruntled creditor making a move toward Oncor will rise, we think. Still, even if a disgruntled creditor were to petition the bankruptcy court to sweep Oncor into the bankruptcy proceeding, we think the effort would be rebuffed.

Will the bankruptcy filing result in a change of control for Oncor, and what will the regulator think about that ?

We think the restructuring of EFH will lead to an ultimate recovery for creditors whereby a material amount of the equity of EFH will change hands from the original LBO sponsors to the creditors. As a result, that ownership change will trigger a review for regulatory approval by the PUCT. **Here are two sections we think are appropriate with respect to change of control from the Public Utilities Regulatory Act, Title II, Texas Utilities Code (as amended):**

Sec. 39.262. TRUE-UP PROCEEDING.

(l) To protect retail customers in this state, and ensure the appropriateness of the nonbypassable rates of electric utilities and transmission and distribution utilities, notwithstanding any other provision of this title, an electric utility or transmission and distribution utility must report to and obtain approval of the commission before closing any transaction in which:

(1) the electric utility or transmission and distribution utility will be merged or consolidated with another electric utility or transmission and distribution utility;

(2) at least 50 percent of the stock of the electric utility or transmission and distribution utility will be transferred or sold; or

(3) a controlling interest or operational control of the electric utility or transmission and distribution utility will be transferred.(m) The commission shall approve a transaction under Subsection (l) if the commission finds that the transaction is in the public interest. In making its determination, the commission shall consider whether the transaction will adversely affect the reliability of service, availability of service, or cost of service of the electric utility or transmission and distribution utility. The commission shall make the determination concerning a transaction under this subsection not later than the 180th day after the date the commission receives the relevant report. If the commission has not made a determination before the 181st day after that date, the transaction is considered approved.

(n) Subsections (l) and (m) do not apply to a transaction described by Subsection (l) for which a definitive agreement was executed before April 1, 2007, if an electric utility or transmission and distribution utility or a person seeking to acquire or merge with an electric utility or transmission and distribution utility made a filing for review of the transaction under Section 14.101 before May 1, 2007, and the resulting proceeding was not withdrawn.

(o) If an electric utility or transmission and distribution utility or a person seeking to acquire or merge with an electric utility or transmission and distribution utility files with the commission a stipulation, representation, or commitment in advance of or as part of a filing under Subsection (l) or under Section 14.101, the commission may enforce the stipulation, representation, or commitment to the extent that the stipulation, representation, or commitment is consistent with the standards provided by this section and Section 14.101. The commission may reasonably interpret and enforce conditions adopted under this section.

(Added by Acts 1999, 76th Leg., R.S., ch. 405 (SB 7), § 39.) (Amended by Acts 2007, 80th Leg., R.S., ch. 1186 (HB 624), § 1 (amended subsec. (c) and added subsecs. (l) to (o)).)

Sec. 39.915. CONSIDERATION AND APPROVAL OF CERTAIN TRANSACTIONS.
(a) To protect retail customers in this state, and to ensure the continuation of cost-effective energy efficiency measures and delivery systems, notwithstanding any other provision of this title, an electric utility or transmission and distribution utility must report to and obtain approval of the commission before closing any transaction in which:

(1) the electric utility or transmission and distribution utility will be merged or consolidated with another electric utility or transmission and distribution utility;

(2) at least 50 percent of the stock of the electric utility or transmission and distribution utility will be transferred or sold; or

(3) a controlling interest or operational control of the electric utility or transmission and distribution utility will be transferred.

(b) The commission shall approve a transaction under Subsection (a) if the commission finds that the transaction is in the public interest. In making its determination, the commission shall consider whether the transaction will adversely affect the reliability of service, availability of service, or cost of service of the electric utility or transmission and distribution utility. The commission shall make the determination concerning a transaction under this subsection not later than the 180th day after the date the commission receives the relevant report. If the commission has not made a determination before the 181st day after that date, the transaction is considered approved.

(c) Subsections (a) and (b) do not apply to a transaction described by Subsection (a) for which a definitive agreement was executed before April 1, 2007, if an electric utility or transmission and distribution utility or a person seeking to acquire or merge with an electric utility or transmission and distribution utility made a filing for review of the transaction under Section 14.101 before May 1, 2007, and the resulting proceeding was not withdrawn.

(d) If an electric utility or transmission and distribution utility or a person seeking to acquire or merge with an electric utility or transmission and distribution utility files with the commission a stipulation, representation, or commitment in advance of or as part of a filing under this section or under Section 14.101, the commission may enforce the stipulation, representation, or commitment to the extent that the stipulation, representation, or commitment is consistent with the standards provided by this section and Section 14.101. The commission may reasonably interpret and enforce conditions adopted under this section.

(Added by Acts 2007, 80th Leg., R.S., ch. 939 (HB 3693) § 25.)

We also think the PUCT is being kept apprised by EFH of the restructuring negotiations (as is the Nuclear Regulatory Commission and the Texas Railroad Commission, among other important interested parties), in an effort to help facilitate or address any views or perspectives that PUCT might raise.

That said, we think PUCT will have a prominent voice at the restructuring negotiations, although it won't technically have a seat at the table. We think PUCT would be very interested in any restructuring alternatives that resulted in Oncor being separated from the EFH family, especially if such a separation were to involve another strategic T&D operator or non-strategic private equity investor. We've long said that on a standalone basis, Oncor would likely be rated on an unsecured basis, at a minimum, at the same level as **CenterPoint Energy Houston Electric** (which would equate to an A1 senior secured rating).

We view Oncor as a premium T&D asset, partly because of its regulatory environment and growth prospects, so the list of interested buyers would probably be as long as a West Texas country mile. In addition to the pension and sovereign wealth funds, we'd expect to see strategic operators such as **CenterPoint Energy**, **American Electric Power Company (Baa2 stable)**, MidAmerican Energy and Exelon Corp. (Baa2 stable) engaged in the process.

But the key to a separation will be the dismantling of the ring fence, since it is unlikely that anyone would be willing to plunk down about $8.0 billion for an asset they don't control. Strategic operators, we think, would have a better chance of negotiating with PUCT over the ring fence's dismantling.

Absent a separation, PUCT would likely look to maintain all of the ring-fence provisions, even if a material amount of debt was wiped away at EFIH and EFH. Recall that the debt that resides at EFIH was not part of the original LBO structure, so the reliance on Oncor's upstream dividends and tax payments has a different flavor if that debt remains in some form or fashion.

What is the equity value of Oncor?

We aren't financial advisors nor do we issue fairness opinions about value, but we can conduct a similar analysis that can get to an approximate range that makes sense. We estimate an equity value for Oncor of about $8 billion. We use several different valuation methodologies, including multiples of precedent merger-and-acquisition transactions, publicly traded multiples for comparable peer companies, and a discounted cash-flow analysis. We then deduct 20% of the equity valuation to reflect the minority investor position, which leaves about $6.5 billion in implied equity valuation for Oncor Electric Delivery Holdings LLC.

In our assessment of Oncor's implied enterprise and equity valuation, we use a 9.0x multiple of EBITDA, 2.0x book (excluding goodwill) and a 16.0x multiple for net income. In our discounted cash-flow analysis, we use a revenue growth rate of approximately 4.5%, assume the EBITDA margin can be defended in the 50%-55% range and a 7.0% weighted average cost of capital discount rate. One note: If pressed, a strategic operator or aggressive financial buyer would likely be capable of arriving at higher multiples, but we think that would only apply if they were getting 100% of Oncor. But we think the minority investors would probably be unwilling to divest themselves of their investment in Oncor, even at multiples approaching the high end of the range.

Oncor's total debt is approximately $7.3 billion, which includes the securitization debt, a $711 million adjustment for underfunded pension obligations, and a $90 million adjustment for operating leases.

EXHIBIT 2
Summary of Moody's Valuation Methods for Oncor

	Equity Value	Minority Interest	Fees / Leakage	Oncor Hldgs
Discounted cash flow analysis	$7,893	$1,579	$-	$6,314
2014 est EBITDA (est)	$10,208	$2,042	$-	$8,166
12/31/2013 book value (est)	$7,000	$1,400	$-	$5,600
2014 net income (est)	$7,200	$1,440	$-	$5,760
Average	$8,075	$1,615	$-	$6,460

Sources: Oncor, Moody's

What if Oncor gets pulled into a bankruptcy?

Notwithstanding our views about the sufficiency of Oncor's ring-fence-like provisions, bankruptcy courts wield a lot of power. As such, there is a possibility, although we see it as remote, that an argument can be made to a bankruptcy court that is compelling enough (and based on legal precedent) that sways a court to bring Oncor into the bankruptcy proceeding. We view this as a form of event risk—a low probability, but high severity, risk.

Q. How will Oncor's senior secured bondholders fare?

If our historical default and recovery analysis holds, bondholders will receive 100% as their ultimate recovery. If the bankruptcy proceeding at **Pacific Gas & Electric** (A3 stable) can be used as a precedent, secured bondholders might also continue to receive their debt-service payments in a timely manner, with no disruptions.

Q. What happens to the sector if Oncor gets dragged into an EFH bankruptcy?

Probably a material regulatory backlash. If Oncor's ring fence fails, we think regulators across the country will take a long, hard look at the insulation and separateness of all utility subsidiaries that are exposed to unregulated affiliates. Costs will rise across the sector, as utility subsidiaries will be required to take stronger measures to mitigate any contagion implications from their more risky affiliates. Private-equity investing in the sector will dry up for several years, as regulators crank up the scrutiny for approvals.

Q. What will PUCT do if Oncor gets dragged in?

PUCT, as well as elected officials, will quickly move to restructure certain provisions in the laws and regulations to strengthen separateness between regulated utilities and their more risky, unregulated affiliates. Worse-case scenario: Oncor gets hauled in for a show-cause order, where the rate structure will be scrutinized to assure ratepayers that costs are not rising to finance the bankruptcy restructuring.

Appendix A: Select historical financials

Summary Financials – Oncor Electric Delivery Company LLC

($ millions)	Revenue	CFO	Capex	Dividends	Debt	Assets
LTM Q2 2013	$3,391	$1,379	$1,291	$240	$7,333	$18,409
2012	3,328	1,349	1,399	225	7,061	18,080
2011	3,118	1,460	1,372	145	6,793	17,461
2010	2,914	1,130	1,028	211	6,624	16,934
2009	2,690	1,008	1,005	272	6,265	16,298
2008	2,580	865	926	1,583	6,052	15,766
2007	2,500	754	749	326	5,313	15,494
2006	2,449	640	889	340	5,178	10,873
2005	2,394	843	777	0	4,647	10,022
2004	2,226	687	663	0	4,620	9,667
2003	2,087	637	591	0	4,455	9,468
2002	1,994	245	525	0	4,610	9,14[illegible]

Source: Moody's

Financial Metrics	CFO pre-W/C + Int Exp / Int Exp	CFO pre-W/C / Debt	CFO pre-W/C – Dividend / Debt	Debt / Capitalization
LTM Q2 2013	4.23x	18.3%	15.0%	43.1%
2012	4.24x	18.5%	15.4%	42.7%
2011	4.70x	21.4%	19.3%	42.5%
2010	4.02x	17.4%	14.2%	42.9%
2009	3.78x	16.9%	12.6%	42.5%
2008	3.57x	14.4%	(11.7%)	42.4%
2007	3.48x	15.4%	9.3%	37.2%
2006	3.17x	13.0%	6.5%	53.9%
2005	3.95x	18.6%	18.6%	52.2%
2004	3.69x	16.9%	16.9%	52.6%
2003	3.21x	15.5%	15.5%	51.3%
2002	3.50x	15.1%	15.1%	54.2%

Source: Moody's

Appendix B:
Public Utility Commission of Texas, Texas Utilities Code, Section 14.101 (excerpt)

Subchapter C. Restrictions On Certain Transactions

Sec. 14.101. Report of Certain Transactions; Commission Consideration.

a Unless a public utility reports the transaction to the commission within a reasonable time, the public utility may not:

1. sell, acquire, or lease a plant as an operating unit or system in this state for a total consideration of more than $100,000; or
2. merge or consolidate with another public utility operating in this state.

b A public utility shall report to the commission within a reasonable time each transaction that involves the sale of at least 50 percent of the stock of the utility. On the filing of a report with the commission, the commission shall investigate the transaction, with or without a public hearing, to determine whether the action is consistent with the public interest. In reaching its determination, the commission shall consider:

1. the reasonable value of the property, facilities, or securities to be acquired, disposed of, merged, transferred, or consolidated;
2. whether the transaction will:
   - (A) adversely affect the health or safety of customers or employees;
   - (B) result in the transfer of jobs of citizens of this state to workers domiciled outside this state; or
   - (C) result in the decline of service;
3. whether the public utility will receive consideration equal to the reasonable value of the assets when it sells, leases, or transfers assets; and
4. whether the transaction is consistent with the public interest.

c If the commission finds that a transaction is not in the public interest, the commission shall take the effect of the transaction into consideration in ratemaking proceedings and disallow the effect of the transaction if the transaction will unreasonably affect rates or service.

d This section does not apply to: (1) the purchase of a unit of property for replacement; (2) an addition to the facilities of a public utility by construction; or (3) transactions that facilitate unbundling, asset valuation, minimization of ownership or control of generation assets, or other purposes consistent with Chapter 39.

Source: (V.A.C.S. Art. 1446c-0, Sec. 1.251.) (1999 Amendments: SB 7, § 9)

Moody's Related Research

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» US Unregulated Utilities and Power Companies: Rising Rating Pressure for Investment-Grade Issuers as Spec-Grade Restructurings Move Center Stage, October 2012 (146765)

» Retail Energy Marketing Brings Plenty of Risks, But Returns Appear Limited, November 2012 (146058)

» Low Gas Prices and Weak Demand are Masking US Nuclear Plant Reliability Issues, November 2012 (146663)

» Shift in Electric Generation Mix Favors Natural Gas, Renewables at Expense of Coal, June 2012 (141980)

Credit Focus:

» Energy Future Holdings Corp, March 2013 (148758)

» Energy Future Intermediate Holdings Company, March 2013 (151260)

» Energy Future Competitive Holdings Company, March 2013 (150090)

Covenant Quality Assessments:

» Energy Future Intermediate Holding Company LLC / EFIH Finance Inc., August 2012 (144705)

» Energy Future Intermediate Holding Company LLC / EFIH Finance Inc. February 2012 (139536)

» Texas Competitive Electric Holdings Company LLC, April 2011 (132674)

» Energy Future Intermediate Holding Company LLC, July 2010 (126333)

» Texas Competitive Electric Holdings Company LLC, March 2009 (115402)

» Oncor Electric Delivery Company, August 2008 (111034)

» Energy Future Holdings Corp. (formerly TXU Corp.), November 2007 (106045)

» TXU Electric Delivery Company, August 2007 (102421)

» TXU Corp., August 2007 (102371)

Industry Outlooks:

» Still No Signs of Recovery, February 2013 (149630)

» Six Month Update: US Unregulated Power Companies, July 2012 (143650)

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» Regulated Electric and Gas Utilities, August 2009 (118481)

» Global Unregulated Utilities and Power Companies, August 2009 (118508)

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2

FitchRatings

FITCH AFFIRMS ONCOR'S IDR AT 'BBB'; OUTLOOK STABLE

Fitch Ratings-New York-12 August 2013: Fitch Ratings has affirmed Oncor Electric Delivery Company LLC's (Oncor) Long-term Issuer Default Rating (IDR) at 'BBB' and Short-term IDR at 'F3'. Fitch has also affirmed Oncor's security ratings. The Rating Outlook is Stable.

KEY RATING DRIVERS

Fitch considers the key rating factors for Oncor to be: 1) the stability of existing regulated utility cash flows; (2) relatively strong service territory; (3) robust financial measures relative to the rating level; (4) effective ring-fencing from highly leveraged Energy Future Holdings Corp. (EFH) and Energy Future Intermediate Holding Company LLC (EFIH); and (5) limited financial exposure in the event of bankruptcy filings of EFH/EFIH and/or Texas Competitive Electric Holdings Company LLC (TCEH), EFH's indirect, non-regulated subsidiary.

Oncor continues to deliver strong operational and financial performance; the latter being driven by a combination of sales growth and significant transmission investments backed with constructive recovery mechanisms. Oncor's electric sales continue to steadily increase driven by relatively stronger economic growth in Texas. Residential points of delivery continue to grow at or above 1% per annum. Demand from large commercial and industrial (C&I) customers has, however, slowed in 2012 and 1H2013 after robust growth in 2010 and 2011.

Oncor has been investing heavily in transmission infrastructure including spending for the Competitive Renewable Energy Zone (CREZ) projects. Various tracker mechanisms allow Oncor to earn a return on transmission related capital investment with minimal regulatory lag. Oncor is planning to spend more than $5 billion over 2013 to 2017 in capex, of which 55 - 57% will be transmission related. Fitch expects Oncor to earn close to its authorized return on equity (ROE) of 10.25% over this forecast period and has not assumed any distribution rate increases in its financial projections. Oncor does have the ability to file for recovery of distribution investments between rate reviews per Senate Bill 1693.

Fitch expects Oncor's Earnings Before Interest, Depreciation and Taxes (EBITDA) to Interest ratio to approach 5.7 times (x) and Debt to EBITDA to be in the 3.3x range, which is strong as compared to Fitch's guideline ratio for a low risk, regulated, 'BBB' issuer. Fitch expects Oncor's Funds Flow from Operations (FFO) metrics to be robust in 2013-14 driven by bonus depreciation and thereafter decline to 19 - 20% range for the balance of the forecast period.

Relative to its peers, Oncor's equity funding is limited by the financial health of its ultimate parent and the utility has replenished equity capital through reductions in dividend distributions. Oncor has been curtailing upstream dividends since 2011 in order to maintain equity to capital ratio within the 40% cap, as mandated by the Public Utility Commission of Texas (PUCT), given its large capital spending plans related to CREZ. As of June 30, 2013, Oncor's regulatory capital structure was 59% debt and 41% equity.

Fitch continues to believe that strong ring-fenced mechanisms isolate Oncor's credit profile from that of its ultimate parent supporting wide ratings differential between Oncor and rest of the EFH group. Last week, Fitch downgraded EFH's IDR to 'CC' from 'CCC' implying that default of some kind appears probable. Fitch rates TCEH's IDR at 'C' and considers a material restructuring of its capital structure highly likely over the next few months.

Fitch recognizes that Oncor's management has taken several steps to manage the contagion effect of potential bankruptcy filings by EFH/EFIH and/or TCEH. These include upsizing the corporate revolving facility and extending its maturity, elimination of notes receivable from TCEH, limiting Oncor's exposure to EFH's pension and other retiree benefits, and withholding dividend in order to create flexibility for additional debt issuances or cushion for any potential write-offs related to account receivables from TCEH. Oncor has no debt maturities until 2015 and there is adequate availability under the corporate revolver, which mitigates concerns regarding capital access should EFH/EFIH file for bankruptcy. Fitch forecasts internal cash generation at Oncor to be robust and sees only modest need for external debt over the next five years.

As of June 30, 2013, Oncor's corporate revolving facility, due October 2016, had borrowings of $960 million and letter of credits outstanding of $6 million. The drawn balances are large and reflect a heavy capex spend for 2013; Oncor typically draws on its corporate revolver to fund capital work in progress and subsequently replaces the drawn balances with permanent financing and/or internally generated funds. Oncor can request the lenders to increase the borrowing capacity of the revolver by $100 million and to extend the maturity in two one-year increments. Under the terms of the corporate revolver, the lenders' commitments are several and not joint.

RATING SENSITIVITY

--Positive rating actions: Positive rating actions for Oncor are not anticipated at this time.
--Texas Regulation: Fitch expects a balanced regulatory environment for Oncor. Any unexpected regulatory developments such as adverse outcomes in future rate cases could result in credit rating downgrades.
--Change in Ownership: Any potential change in ownership of Oncor would need to be evaluated in context of the potential new ring-fencing arrangements implemented to preserve the credit quality of the company.
--Potential Bankruptcy Filing by EFH/EFIH and/or TCEH: Negative rating actions by Fitch could result depending upon Oncor's financial exposure to TCEH at the time of the filing. Fitch continues to believe that the ring-fencing measures for Oncor are strong, and the assets of Oncor should not be consolidated in the event of bankruptcy of EFH. Any decision to the contrary during potential bankruptcy proceedings could lead to ratings downgrade for Oncor.

Fitch affirms the following ratings with a Stable Outlook:

--Long-term IDR at 'BBB';
--Senior secured debt at 'BBB+';
--Short-term IDR and commercial paper at 'F3'.

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Additional information is available at 'www.fitchratings.com'.

Applicable Criteria and Related Research:
--'Corporate Rating Methodology' (Aug. 5, 2013);
--'Recovery Ratings and Notching Criteria for Non-Financial Corporate Issuers' (Nov. 13, 2012);
--'Short-Term Ratings Criteria for Non-Financial Corporates' (Aug. 5, 2013);
--'Parent and Subsidiary Rating Linkage' (Aug. 5, 2013).

Applicable Criteria and Related Research:
Corporate Rating Methodology - Effective from 8 August 2012 - 5 August 2013
http://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=684460
Recovery Ratings and Notching Criteria for Non-Financial Corporate Issuers
http://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=693773
Short-Term Ratings Criteria for Non-Financial Corporates
http://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=714415
Parent and Subsidiary Rating Linkage
http://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=685552

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STANDARD & POOR'S

Standard & Poor's Research

Oncor Electric Delivery Co. LLC

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Summary:

Oncor Electric Delivery Co. LLC

Corporate Credit Rating	BBB+/Stable/NR

Profile Assessments

BUSINESS RISK	EXCELLENT	Vulnerable — Excellent
FINANCIAL RISK	AGGRESSIVE	Highly leveraged — Minimal

Rationale

Business Risk: Excellent

- Low operating risk electric transmission and distribution operations with no commodity exposure
- Large service territory with generally attractive demographics
- Prudent financial policies, along with generally conservative management and effective handling of regulatory risk
- Ongoing need to maintain separateness from majority owner, Energy Future Holdings (EFH), which remains financially distressed

Financial Risk: Aggressive

- Large, albeit somewhat decreasing, capital spending program focused mostly on transmission and infrastructure investments that have timely recovery
- Elevated debt leverage (about 65%), which Standard & Poor's Ratings Services expects will remain largely unchanged
- Dividend distributions to owners continue to support a capital structure with 60% debt to 40% equity, as per the terms of last approved rate case
- Strong liquidity and proactive management of debt maturities

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Outlook: Stable

The stable rating outlook on Oncor Electric Delivery Co. LLC incorporates our expectations of generally stable financial performance over the next 12 to 24 months as the company completes its planned capital investment in transmission projects by 2014. Our baseline forecast is for FFO to total debt to be more than 15% and total debt to total capital to remain at about 65%, including short-term debt and excluding from equity an amount that is primarily equal to the goodwill resulting from the leveraged buyout of Oncor's majority owner, EFH.

Downside scenario

We would lower the ratings on Oncor by one notch if the company were unable to recover invested capital in a timely manner such that FFO to debt falls to less than 14%, debt leverage exceeds 66% and/or debt/EBITDA exceeds 4.5x, on a consistent basis. In addition, any pressure from majority owner EFH to make excess distributions or any compromise of the separateness undertakings currently in place would trigger a multiple-notch downgrade.

Upside scenario

Given Oncor's level of debt leverage, we do not contemplate a higher rating, despite the company's excellent business risk profile.

Standard & Poor's Base-Case Scenario

Our base case scenario incorporates moderate operating income growth; a large, but decreasing capital spending program; and largely stable debt leverage.

Assumptions

- Operating income grows in the low- to mid-single digits, benefiting from transmission cost recovery and load growth
- We are not assuming any base rate increases during the projection period
- Capital spending remains high at slightly more than $1 billion annually, with timely recovery of transmission investments
- Deferred taxes from bonus depreciation benefit cash from operations in 2013 and then end by 2014
- Dividend distributions that support the regulatory approved capital structure of 60% debt and 40% equity

Key Metrics

	2012A	2013E	2014E
FFO/debt	16.6%	17%-19%	15%-17%
Debt/EBITDA	3.9x	3.7x-3.9x	3.7x-3.9x
Debt/capital	64.7%	65%-66%	65%-66%

*Leverage and coverage ratios include operating lease, pension and postretirement, and accrued interest that increase debt by $17.5 million, $932.1 million, and $95 million, respectively, as of Dec. 31, 2012. We back out of total debt $435.6 million of transition bonds. We do not expect these adjustments to change materially over the next few years, except for the transition bonds, which decline over time and mature in 2016. A--Actual. E--Estimate.

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Business Risk: Excellent

Separateness from majority owner, Energy Future Holdings Corp.

The ratings on Oncor Electric Delivery Co. LLC incorporate, in addition to the stand-alone "excellent" business risk and "aggressive" financial risk profile, a number of structural, legal, and regulatory provisions that allow Standard & Poor's to view the company separately from its majority owner, EFH.

These provisions include:

- The sale of 19.75% of Oncor to Texas Transmission Investment LLC, which is a third-party, unaffiliated investor. This investor has sufficient rights and board representation that can prevent EFH from harming Oncor's credit profile. These rights include the ability to veto changes in Oncor's dividend policy, the requirement to consent to the institution of bankruptcy or insolvency proceeding against Oncor, approval over material transactions between Oncor and its non-ring-fenced affiliates, approval over the annual budget if it is reduced by 10% or more from the previous year, and the ability to prevent dividend distributions if it is in Oncor's best interests to retain such amounts for future capital requirements.
- Legal ring-fencing provisions that include a nonconsolidation opinion, separateness undertakings (such as arm's-length transactions between Oncor and EFH, and the inability of Oncor to extend financial support to or receive financial support from EFH), and six independent directors who are required by law to consider only the interests of Oncor and its creditors when acting or voting on any material action, two of whom are special independent directors.

Stable, Low-Risk Transmission And Distribution Operations With Credit-Supportive Regulation

Oncor's business risk profile is "excellent" and reflects the company's low operating risk electric transmission and distribution operations that have no commodity exposure and effective management of regulatory risk.

Although Oncor owns the transmission and distribution network that delivers electricity to retail and commercial users, its actual customers consist of more than 80 retail electricity providers (REPs) that operate within its service territory. The largest of these REPs, Texas Competitive Energy Holdings Co. LLC (TCEH), an EFH affiliate, accounted for 29% of Oncor's 2012 revenues, while subsidiaries of a nonaffiliated REP accounted for 15%. Since Oncor relies on these REPs to remit timely payments for distribution services rendered, a default by an REP would cause delays in payment and could pressure Oncor's liquidity. As of Dec. 31, 2012, Oncor's trade-accounts receivable from TCEH were $53 million, or about 2% of revenues for the period. If an REP declares bankruptcy, Oncor can recover bad debt expense from customers, but this rule applies only to nonaffiliated REPs and not to TCEH. In the case of any default in the payments of accounts receivable by TCEH, Oncor can recover any claims by withholding distributions to the two owners until it is made whole. While Oncor would have a senior unsecured claim against TCEH in this instance, our recovery analysis on EFH suggests that recovery on senior unsecured claims against EFH or its affiliates would be very small due to the large amounts of senior secured debt.

Oncor expects to complete the competitive renewable energy zones (CREZ) transmission projects by early 2014 at an estimated cost of $2 billion and has spent $1.46 billion through Dec. 31 2012. Oncor recovers the cost of wholesale transmission service through a separate rate, the transmission cost recovery factor, and not through base rates. Similarly, Oncor recovers the cost of retail transmission service through a separate rider, the transmission cost of

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service.

Reflected in Oncor's business risk profile is our assessment of the company's management and governance as "satisfactory". Oncor management has been transparent and has consistently and effectively operated within the confines of the regulatory and ring-fencing arrangements that are important to ensure continued separation between Oncor and majority owner, EFH. Over the past year, Oncor, along with EFH, has taken certain actions that further support the separateness of the two companies, including terminating a shared pension scheme and a note receivable from TCEH to Oncor. Separately, Oncor has also increased the availability under its revolving credit facility and has refinanced some of its outstanding debt obligations such that its next debt maturity is not until early 2015.

Financial Risk: Aggressive

High leverage combined with consistent cash flow

Oncor's financial risk profile is "aggressive", reflecting financial measures from our baseline forecast that are in the middle of the category and support current ratings, supported by steady economic activity in the company's service territory and timely recovery of the modestly declining but still significant capital spending program.

Our base-case forecast suggests key credit measures will remain adequate for the aggressive financial risk profile category with FFO to total debt at more than 15%, debt leverage at about 65%, and debt/EBITDA that remains less than 4x.

Liquidity: Strong

Oncor has "strong" liquidity to cover its needs over the next 12 to 18 months, in our view. We expect that the company's sources of liquidity will exceed uses by 1.5x or more over the next 12 months and by more than 1x over the next 24 months and that the company will also meet our other criteria for such a designation. We view strong liquidity as very important for Oncor because, despite the existing separateness undertakings with majority owner EFH, adverse developments at EFH may make it difficult for Oncor to access the capital markets when it needs to and under favorable terms.

Oncor has a $2.4 billion revolving credit facility expiring in October 2016, which had about $1.6 billion available as of Dec. 31, 2012. The credit facility is secured and is pari passu with Oncor's other secured debt obligations.

Principal Liquidity Sources	Principal Liquidity Uses
• Cash flow from operations of about $1.2 billion to $1.4 billion in 2013 and 2014, respectively • Ongoing credit facility availability of about $1.6 billion • Cash on hand of about $45 million	• No debt maturities until 2015 • Capital spending of about $1.1 billion in 2013 and $1 billion in 2014 • Dividend payments that do not exceed net income

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Recovery Analysis

We assign recovery ratings to first mortgage bonds (FMBs) issued by U.S. utilities, which can result in issue ratings being notched above a corporate credit rating (CCR) on a utility depending on the rating category and the extent of the collateral coverage. The FMBs issued by U.S. utilities are a form of "secured utility bond" (SUB) that qualify for a recovery rating as defined in our criteria (see "Collateral Coverage and Issue Notching Rules for '1+' and '1' Recovery Ratings on Senior Bonds Secured by Utility Real Property", published Feb. 14, 2013).

The recovery methodology is supported by the ample historical record of 100% recovery for secured bondholders in utility bankruptcies in the U.S. and our view that the factors that enhanced those recoveries (limited size of the creditor class and the durable value of utility rate-based assets during and after a reorganization given the essential service provided and the high replacement cost) will persist in the future.

Under our SUB criteria, we calculate a ratio of our estimate of the value of the collateral pledged to bondholders relative to the amount of FMBs outstanding. FMB ratings can exceed a CCR on a utility by up to one notch in the 'A' category, two notches in the 'BBB' category, and three notches in speculative-grade categories depending on the calculated ratio.

Oncor's FMBs benefit from a first-priority lien on substantially all of the utility's real property owned or subsequently acquired. Collateral coverage of more than 1.5x supports a recovery rating of '1+' and an issue rating two notches above the CCR.

Related Criteria And Research

- Methodology: Management And Governance Credit Factors For Corporate Entities And Insurers, Nov. 13, 2012
- Methodology: Business Risk/Financial Risk Matrix Expanded, Sept. 18, 2012
- Methodology And Assumptions: Liquidity Descriptors For Global Corporate Issuers, Sept. 28, 2011
- 2008 Corporate Criteria: Analytical Methodology, April 15, 2008
- 2008 Corporate Ratings Criteria: Ratios And Adjustments, April 15, 2008
- 2008 Corporate Criteria: Rating Each Issue, April 15, 2008
- Methodology And Assumptions: Standard & Poor's Revises Key Ratios Used In Global Corporate Ratings Analysis, Dec. 28, 2011
- 2008 Corporate Criteria: Commercial Paper, April 15, 2008
- Request For Comment: Collateral Coverage And Issue Notching Rules For '1+' And '1' Recovery Ratings On Senior Bonds Secured By Utility Real Property, Sept. 26, 2012
- Key Credit Factors: Business And Financial Risks In The Investor-Owned Utilities Industry, Nov. 26, 2008
- Assessing U.S. Utility Regulatory Environments, Nov. 7, 2007

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Business And Financial Risk Matrix

Business Risk	Financial Risk					
	Minimal	Modest	Intermediate	Significant	Aggressive	Highly Leveraged
Excellent	AAA/AA+	AA	A	A-	BBB	--
Strong	AA	A	A-	BBB	BB	BB-
Satisfactory	A-	BBB+	BBB	BB+	BB-	B+
Fair	--	BBB-	BB+	BB	BB-	B
Weak	--	--	BB	BB-	B+	B-
Vulnerable	--	--	--	B+	B	B- or below

Note: These rating outcomes are shown for guidance purposes only. The ratings indicated in each cell of the matrix are the midpoints of the likely rating possibilities. There can be small positives and negatives that would lead to an outcome of one notch higher or lower than the typical matrix outcome. Moreover, there will be exceptions that go beyond a one-notch divergence. For example, the matrix does not address the lowest rungs of the credit spectrum (i.e., the 'CCC' category and lower). Other rating outcomes that are more than one notch off the matrix may occur for companies that have liquidity that we judge as "less than adequate" or "weak" under our criteria, or companies with "satisfactory" or better business risk profiles that have extreme debt burdens due to leveraged buyouts or other reasons. For government-related entities (GREs), the indicated rating would apply to the standalone credit profile, before giving any credit for potential government support.

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FitchRatings

FITCH RATES ONCOR'S SENIOR SECURED NOTES REOPENING 'BBB+'; OUTLOOK STABLE

Fitch Ratings-New York-10 May 2013: Fitch Ratings rates Oncor Electric Delivery Company LLC's (Oncor) issuance of $100 million 4.55% senior secured notes due 2041 'BBB+'. The Rating Outlook is Stable. The notes are part of the same series as the $300 million notes issued on Nov. 23, 2011 that are still outstanding.

Oncor plans to use the net proceeds from this issue to repay borrowings under its revolving credit facility and for general corporate purposes. Oncor has a $2.4 billion revolving credit facility due Oct. 11, 2016. As of March 31, 2013, Oncor had $977 million borrowings outstanding under the facility and $6 million letters of credit outstanding.

Oncor's rating reflects the stability of regulated utility cash flows, relatively strong service territory, balanced regulation as demonstrated in the outcomes of the last rate case, and effective ring-fencing from a highly leveraged parent. Oncor's credit metrics for the last 12 months ending March 31, 2013 continue to benefit from the relative strength in the Texas economy and supportive tracker mechanisms that allow the company to earn a return on its transmission investments with minimal regulatory lag. Oncor plans on spending close to $5.1 billion in 2013-17 on capital expenditure, which includes expenditure related to the Competitive Renewable Energy Zone (CREZ) construction and voltage support projects.

Fitch expects Oncor's Earnings Before Interest, Depreciation and Taxes (EBITDA) to interest ratio to approach 4.8 times (x) and debt to EBITDA to be in the 3.5x range over the forecast period, which is strong relative to Fitch's guideline ratios for a low risk, regulated 'BBB' issuer. Fitch expects funds from operations (FFO) to debt ratio in 2013 to continue to get a boost from bonus depreciation benefits before moderating to 17%-18% in 2015-16.

Relative to its peers, Oncor exhibits a limited source of equity funding given the poor financial health of its parent. Oncor is already severely curtailing the upstream dividends in order to maintain equity to capital within the 40% minimum Public Utility Commission of Texas (PUCT) required level given its large capital spending plans. As of March 31, 2013, Oncor's regulatory capitalization ratio was 58.6% debt and 41.4% equity.

Fitch considers Oncor to be effectively ring-fenced from its ultimate parent, Energy Future Holdings Corp. (EFH; Issuer Default Rating 'CCC'). Nevertheless, its credit market access or credit spreads could become constrained by further deterioration in the financial condition of EFH and non-ring-fenced affiliates. Oncor has taken several actions in the recent past to lower the re-financing risk, such as upsizing its revolving credit facility and actively managing its debt maturity profile. Changes to EFH's pension plan and termination of certain related-party agreements in 2012 have further reduced the contagion risk for Oncor.

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Applicable Criteria and Related Research:
--'Corporate Rating Methodology' (Aug. 8, 2012);
--'Recovery Ratings and Notching Criteria for Utilities' (Nov. 12, 2012);
--'Parent and Subsidiary Rating Linkage' (Aug. 8, 2012).

Applicable Criteria and Related Research
Recovery Ratings and Notching Criteria for Utilities
http://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=693750
Parent and Subsidiary Rating Linkage
http://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=685552
Corporate Rating Methodology
http://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=684460

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MOODY'S
INVESTORS SERVICE

Credit Opinion: Oncor Electric Delivery Company LLC

Global Credit Research - 27 Feb 2013

Dallas, Texas, United States

Ratings

Category	Moody's Rating
Outlook	Stable
First Mortgage Bonds	Baa3
Senior Secured	Baa3
Parent: Energy Future Holdings Corp.	
Outlook	No Outlook
Bkd Senior Secured	Caa2/LGD6
Bkd Senior Unsecured	Caa2/LGD6

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Key Indicators

[1]Oncor Electric Delivery Company LLC

	2012	2011	2010	2009
(CFO Pre-W/C + Interest) / Interest Expense	4.2x	4.7x	4.0x	3.8x
(CFO Pre-W/C) / Debt	18.5%	21.4%	17.4%	16.9%
(CFO Pre-W/C - Dividends) / Debt	15.4%	19.3%	14.2%	12.6%
Debt / Book Capitalization	42.7%	42.5%	42.9%	42.6%

[1] All ratios calculated in accordance with the Global Regulated Electric Utilities Rating Methodology using Moody's standard adjustments.

Note: For definitions of Moody's most common ratio terms please see the accompanying User's Guide.

Opinion

Rating Drivers

Low-risk business operations within a supportive regulatory jurisdiction

Significant capital expenditures of approximately $1.0 billion per year and upstream dividends of roughly $225 - $325 million pressures financing outlook

Highly levered parent, EFIH (B3 CFR), relies heavily on Oncor to meet its debt service obligations

Event risks associated with financially distressed affiliate, TCEH

Ring fence type provisions provide strong insulation from potential restructuring at EFCH-TCEH

Corporate Profile

Oncor Electric Delivery Company LLC (Oncor) is an electric transmission and distribution utility serving the greater Dallas / Ft. Worth regions. Oncor's revenues are primarily regulated by the Public Utility Commission of Texas (PUCT), a credit positive given the supportive political and regulatory environment in Texas. Oncor is a majority-owned subsidiary of Oncor Electric Delivery Holdings Company LLC (not rated) which is a wholly-owned subsidiary of Energy Future Intermediate Holding Company (EFIH: B3 Corporate Family Rating / negative) which is a wholly-owned subsidiary of Energy Future Holdings Corp. (EFH: no rating). Oncor's affiliate, Texas Competitive Electric Holdings Company (TCEH), is a financially distressed unregulated power company with an untenable capital structure. Approximately one-third of Oncor's revenues are associated with TCEH's retail electric provider business activities.

SUMMARY RATING RATIONALE

Oncor's Baa3 senior secured rating reflects the highly leveraged capital structure at EFIH, Oncor's indirect parent; EFIH's high reliance on Oncor's up-stream dividends to support EFIH's debt service; the high reliance on Oncor's up-stream tax payments to support EFH's debt service, along with the inter-woven cash transfer relationship that remains between EFH and EFIH. Oncor's stable rating outlook reflects the stability and predictability of its revenues and cash flows; its supportive regulatory environment and Moody's expectation that Oncor will not be materially affected by any contagion risks of a default and restructuring at its EFCH-TCEH affiliate or EFH-EFIH parents, given the existing ring-fencing type arrangements.

Oncor's Baa3 rating takes into consideration the strong likelihood that its affiliates EFCH-TCEH will default and restructure within the next 6 - 12 months; that Oncor will experience some modest contagion effects associated with the restructuring but that Oncor will not be pulled into any restructuring proceedings. All else being equal, Moody's does not see Oncor's Baa3 senior secured rating falling below investment grade unless the ring-fence provisions fail.

DETAILED RATING CONSIDERATIONS

Low-risk business operations within a supportive regulatory jurisdiction

Oncor is a rate-regulated electric transmission and distribution (T&D) utility serving the greater North Texas / Dallas- Fort Worth region. All of Oncor's revenues are regulated by the Public Utility Commission of Texas (PUCT), a credit positive because of the relatively transparent and supportive regulatory framework that tends to provide timely recovery for prudently incurred costs and investments. Today, we see little evidence indicating that a more contentious regulatory environment is coming, although the uncertainty surrounding event risk associated with Oncor's financially distressed affiliate, TCEH, deserves monitoring.

As a stand-alone credit, Oncor is well positioned within the Baa-rating category. Although Oncor's fundamentals compare favorably to selected T&D peers, such as CenterPoint Energy Houston Electric (A3 senior secured / stable), its rating is constrained by EFIH's heavy and permanent reliance on Oncor for liquidity support. Few other utility T&D utility subsidiaries face the same level of parent-level risks.

Stable financial profile

Electric T&D utilities are critical infrastructure assets that produce stable and predictable revenues and cash flow. We still incorporate a view that the Texas based T&D utilities can endure lower credit metrics for a given rating category. In our opinion, Texas T&Ds have a slightly lower risk profile than the broader T&D peer group as they are not exposed to any provider of last resort (POLR) risk or commodity risks.

Over the past 5 years, Oncor produced an average ratio of cash from operations before changes in working capital (CFO pre W/C) to debt of approximately 18%. This ratio includes both securitization cash flows and related debt, as well as pension and operating lease adjustments.

Cash flows, adjusted for changes in working capital, have increased in recent years to roughly $1.3 billion. Prospectively, we expect the ratio of Oncor's CFO pre W/C to debt to decline to the low to mid-teen's range as the company continues with its capital expenditure programs.

Although Oncor is not obligated to meet EFIH's debt service obligations, Oncor is the only subsidiary of EFIH that produces revenue and cash flow. When evaluating Oncor's projected cash flows against the total consolidated debt of EFIH (and including the remaining debt that resides at EFH), Oncor's ratio of CFO to debt falls to approximately 8%.

Capital structure limitation and dividend policy need to be monitored carefully in light of the significant debt at parent

In addition to the roughly $7.1 billion of debt at Oncor, EFIH has about $7.5 billion of debt. We view the debt at EFIH as a form of permanent leverage for Oncor, despite a strong suite of ring-fence type provisions, because of EFIH's heavy reliance on the cash flow from Oncor to service its debt. We see Oncor's upstream dividend payment increasing over the next few years; however we also see some risks with a steadily increasing dividend because of the flexibility that GAAP reporting provides management with respect to earnings. For example, today's earnings are bolstered by stimulus programs or other non-cash items, such as bonus depreciation, that we believe are unsustainable over the long term horizon.

Separately, we observe that one of the main provisions of the ring fence type provisions at Oncor is a debt to capitalization limitation. This limitation tracks Oncor's authorized debt in its capital structure at a 60% maximum threshold. But this regulatory defined 60% debt to capitalization ratio excludes short term debt which currently amounts to $735 million.

Permanent leverage at EFIH weighs on Oncor's financial flexibility

We include approximately $8.1 billion of parent company debt at EFIH and EFH which looks to Oncor for support in terms of collateral recovery, liquidity and debt service. This heavy reliance on Oncor is viewed to be permanent because EFH is actively seeking to create credit separateness between EFH and EFCH-TCEH.

We think Oncor's ring fence type provisions help insulate Oncor from the risk of being pulled into a restructuring proceeding at EFCH-TCEH, but the ring fence does not insulate Oncor from the credit deterioration that arises from its parents' reliance on upstream dividend and tax payments; its parent's untenable capital structure or any modest contagion implications associated with an EFCH-TCEH default and restructuring. This heavy reliance on Oncor puts the company in a different risk category than its regulated T&D peers, and indirectly constrains Oncor's otherwise robust financial flexibility.

Implied valuation of Oncor

We estimate Oncor's total enterprise value, which includes roughly $7.1 billion in debt, to be approximately $15 billion. Assuming a sustainable EBITDA of roughly $1.8 billion, the EBITDA multiple of 8.3x appears to be in-line with most comparable transactions and peer valuations. If we eliminate roughly $7.1 billion of debt from the enterprise value, we get a total Oncor equity value of approximately $7.9 billion, which is 17.6x our estimated sustained net income of $450 million and is 2.3x our estimated book value of $3.5 billion.

EFIH owns approximately 80% of Oncor through another intermediate subsidiary holding company, Oncor Holdings. Which means EFIH's equity ownership in Oncor is approximately 80% of $7.9 billion, or $6.3 billion. While some of these multiples appear rich, the highest implied valuation we see is associated with a discounted cash flow (DCF) analysis. In summary, over the next 2 years, as Oncor winds down its CREZ spending, its unlevered free cash flows increases and its DCF valuation also rises.

Event risk at affiliate, TCEH

Oncor's affiliate, TCEH, is a financially distressed company with an untenable capital structure. Despite the ring fence around Oncor, we cannot completely ignore the inter-relationships that exist between Oncor and its affiliate because they were once combined as part of a vertically integrated electric utility.

There are still some financial relationships between Oncor and its affiliates. A sizeable concentration of Oncor's revenue, roughly 30%, is associated with TXU Energy (Retail), but that's down from 50% - 60% a few years ago. Overall, Oncor's contagion risks associated with TCEH have fallen due to a series of separateness actions, such as the actions associated with the pension and an intercompany note receivable from TCEH. Although some impacts from a TCEH default are sure to be felt at Oncor, we do not think they will be material, and Oncor's Baa3 senior secured rating incorporates these risk factors.,

Liquidity

Oncor's liquidity appears adequate at this time. Our liquidity assessment for the next four quarters specifically excludes any access by Oncor to the capital markets. For 2012, Oncor generated approximately $1.3 billion of cash from operations, incurred approximately $1.4 billion in capital expenditures and made upstream dividend payments to its parent of roughly $225 million, resulting in roughly $0.3 billion of negative free cash flow.

In May 2012, Oncor increased its secured revolving credit facility by $400 million to a total of $2.4 billion. The credit facility matures in October 2016 and Oncor has the option of requesting up to two additional one-year extensions subject to certain conditions and lender approval. At the end of 2012, there were $735 million of borrowings and $6 million of letters of credit outstanding under the facility.

The credit facility has a 65% debt to capitalization financial covenant, which we view as reasonably positive in the sense that it provides the company with some modest cushion from where its debt to capitalization is expected to be maintained as part of the proposed ring fencing and regulatory authorization (60%). But the bank covenant calculation, which currently has a significant amount of headroom cushion, includes roughly $4 billion of goodwill. In contrast, the regulatory capitalization calculation includes neither goodwill nor short term borrowings under the revolver. We do not view Oncor as having any other meaningful sources of alternate liquidity.

Prospectively, we expect Oncor to produce approximately $1.3 billion in cash flow from operations in the next 12 months and to spend roughly $1 billion in capital expenditures. We see Oncor's dividend rising from approximately $225 million for 2012 to roughly $225 - $325 million from 2013 through 2015. There are no material debt maturities until January 2015 when $500 million in senior notes mature.

Rating Outlook

Oncor's rating outlook is stable. We view the Public Utility Commission of Texas (PUCT) as supportive to Oncor's long term credit quality, and we view favorably Oncor's suite of approved regulatory cost recovery mechanisms, which provide timely recovery of Oncor's prudently incurred costs and investments. The stable outlook takes into consideration the high probability of a default and restructuring at affiliates EFCH-TCEH, and incorporates a view that Oncor's ring fence type provisions will provide adequate protection to keep Oncor from being pulled into any potential restructuring proceeding.

What Could Change the Rating - Up

Oncor's ratings could be upgraded with a material reduction in EFIH's debt, or a material revision to its corporate finance policies where the ratio of CFO to debt were to increase into the mid-20% range, a level we think helps mitigate the higher risk profile carried at its parents, EFH and EFIH.

What Could Change the Rating - Down

On a stand-alone basis, Oncor's ratings could be downgraded if Oncor's financial profile were to deteriorate, where the ratio of CFO to debt were to fall into the low to mid-teen's or if a contentious regulatory environment develops which negatively impacts Oncor's timely recovery of costs and investments. Beyond those considerations, Oncor's ratings are unlikely to be downgraded with a default and restructuring announcement at affiliate EFCH-TCEH, unless it appears that the ring fence will fail. We continue to incorporate a view that a failure of the Oncor ring fence is a remote probability.

Rating Factors

Oncor Electric Delivery Company LLC

Regulated Electric and Gas Utilities Industry [1][2]	**FY 12/31/2012**		**Moody's 12-18 month Forward View* As of February 2013**	
Factor 1: Regulatory Framework (25%)	Measure	Score	Measure	Score
a) Regulatory Framework		A		A
Factor 2: Ability To Recover Costs And Earn Returns (25%)				
a) Ability To Recover Costs And Earn Returns		Baa		Baa
Factor 3: Diversification (10%)				
a) Market Position (10%)		Ba		Ba
b) Generation and Fuel Diversity (0%)		na		na
Factor 4: Financial Strength, Liquidity And Key Financial Metrics (40%)				

a) Liquidity (10%)		Baa		Baa
b) CFO pre-WC + Interest/ Interest (3 Year Avg) (7.5%)	4.3x	Baa	4.5x - 5.0x	A
c) CFO pre-WC / Debt (3 Year Avg) (7.5%)	19.1%	Baa	18% - 22%	Baa
d) CFO pre-WC - Dividends / Debt (3 Year Avg) (7.5%)	16.3%	Baa	15% - 18%	Baa
e) Debt/Capitalization (3 Year Avg) (7.5%)	42.7%	A	40% - 45%	A
Rating:				
a) Indicated Rating from Grid		Baa1		Baa1
b) Actual Rating Assigned		Baa3		Baa3

* THIS REPRESENTS MOODY'S FORWARD VIEW; NOT THE VIEW OF THE ISSUER; AND UNLESS NOTED IN THE TEXT DOES NOT INCORPORATE SIGNIFICANT ACQUISITIONS OR DIVESTITURES

[1] All ratios are calculated using Moody's Standard Adjustments. [2] As of 12/31/2012; Source: Moody's Financial Metrics

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STANDARD & POOR'S

Standard & Poor's Research

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Summary:

Oncor Electric Delivery Co. LLC

Credit Rating: BBB+/Stable/NR

Rationale

Standard & Poor's Ratings Services' ratings on Oncor Electric Delivery Co. LLC incorporate, in addition to the stand-alone "excellent" business risk profile and "aggressive" financial risk profile, a number of structural, legal, and regulatory provisions that allow Standard & Poor's to view the company separately from its majority owner, Energy Future Holdings Corp. (EFH). These provisions include:

- The sale of 19.75% of Oncor to Texas Transmission Investment LLC, which is a third-party, unaffiliated investor. This investor has sufficient rights and board representation that can prevent EFH from harming Oncor's credit profile. These rights include the ability to veto changes in Oncor's dividend policy, requirement to consent to the institution of bankruptcy or insolvency proceeding against Oncor, approval over material transactions between Oncor and its non-ring-fenced affiliates, approval over the annual budget if it is reduced by 10% or more from the previous year's amount, and the ability to prevent dividend distributions if it is in Oncor's best interests to retain such amounts for future capital requirements.
- Legal ring-fencing provisions. These include a nonconsolidation opinion and separateness undertakings (such as arm's-length transactions between Oncor and EFH and the inability of Oncor to extend financial support to or receive financial support from EFH), and six independent directors who are required by law to consider only the interests of Oncor and its creditors when acting or voting on any material action, two of whom are special independent directors.

Oncor's excellent business risk profile reflects the company's electric distribution and transmission business, which has low operating risk and a lack of commodity exposure and serves a large customer base of more than 3.2 million end users with generally attractive demographics. In addition, the excellent business risk profile takes into account the company's efforts to reach regulatory outcomes that are generally supportive of credit quality. These strengths are offset by a large capital spending program to build new transmission projects and the ongoing requirement to maintain the existing separateness undertakings with majority owner EFH. We expect that when the transmission projects are completed by 2014 they will have contributed to a material increase in Oncor's rate base, providing ongoing support to the financial risk profile. Oncor is operating under a base-rate freeze until July 1, 2013. Under the terms of the last rate-case decision, Oncor's base rates increased by $137 million and reflect a 10.25% return on equity (ROE) and a capital structure of 60% debt and 40% equity.

Oncor's financial risk profile is aggressive, reflecting financial measures from our baseline forecast that are in the middle of the category and support current ratings. Our baseline forecast of funds from operations (FFO) to total debt of more than 15% and debt leverage that remains at about 66%, reflect steady economic activity in the company's service territory combined with a moderation in capital spending upon timely completion of transmission projects and their subsequent cost recovery. At the same time, we expect that Oncor will continue to operate within the

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