



**INDEX TO THE DIRECT TESTIMONY
OF W. MARK CARPENTER, WITNESS FOR
ONCOR ELECTRIC DELIVERY COMPANY LLC**

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DIRECT TESTIMONY OF W. MARK CARPENTER

I. INTRODUCTION, POSITION, AND QUALIFICATIONS

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

A. My name is W. Mark Carpenter. My business address is 1616 Woodall Rodgers Freeway, Dallas, Texas, 75202. I am currently the Senior Vice President of Transmission and Distribution Operations for Oncor Electric Delivery Company LLC (“Oncor” or the “Company”).

Q. WHAT ARE YOUR PRIMARY RESPONSIBILITIES IN YOUR CURRENT POSITION?

A. I am currently the executive responsible for Oncor’s Transmission Grid Management and Distribution System Operations as well as Measurement Services. Previously, I was Oncor’s Chief Information Officer and the Chief Technology Officer responsible for Oncor’s Information Technology, along with being responsible for large technology projects at Oncor, including the solution architecture associated with and deployment of the Company’s advanced metering system (“AMS”), which was originally approved by the Public Utility Commission of Texas (“PUC” or the “Commission”) in Docket No. 35718.

Q. PLEASE DESCRIBE YOUR EDUCATIONAL BACKGROUND AND PROFESSIONAL QUALIFICATIONS.

A. I graduated from Texas Tech University in 1975 with a Bachelor of Science degree in Electrical Engineering. In 1975, I began my career in transmission equipment support at Texas Power and Light Company, one of the predecessor companies of Oncor. From 1976 through 1987, I held various field supervision and general office positions involving transmission and distribution crews and technicians, and management positions in transmission and distribution field operations, construction, and maintenance areas. In 1987, I became the Substation Engineering Manager. In 1992, I became the System Protection Manager. In 2005, I

1 became the Director of System Protection and Transmission Operations
2 Support, and I became the Senior Director of Engineering for Oncor in
3 early 2006. In October 2007, I became the Senior Director of Technology
4 for Oncor, and in March 2008, I became a Vice President and the Chief
5 Information Officer. From February 2010 through November 2011, I
6 served as Vice President and Chief Technology Officer. In November
7 2011, I assumed my current position of Senior Vice President of
8 Transmission and Distribution Operations.

9 I am a licensed Professional Engineer in the State of Texas
10 (License Number 67699).

11 Q. HAVE YOU EVER SUBMITTED TESTIMONY BEFORE THE
12 COMMISSION?

13 A. Yes. I filed testimony in Docket Nos. 33672, 35717, 39552, 41814, 42214,
14 and 46957, and I testified live in Docket No. 35717.

15 **II. PURPOSE OF DIRECT TESTIMONY**

16 Q. WHAT IS THE PURPOSE OF YOUR DIRECT TESTIMONY?

17 A. The purpose of my direct testimony is as follows:

- 18 • I describe my view that, after the proposed exchange of certain of
19 Oncor's transmission facilities for all of Sharyland's¹ distribution
20 facilities and certain of Sharyland's transmission facilities (the
21 "Proposed Transaction")² as proposed in the *Joint Report and*
22 *Application of Sharyland Utilities, L.P., Sharyland Distribution &*
23 *Transmission Services, L.L.C., and Oncor Electric Delivery*
24 *Company LLC for Transfer of Facilities, Transfer of Rights Under*
25 *and Amendment of Certificates of Convenience and Necessity, and*

¹ The term "Sharyland" as used herein includes both Sharyland Utilities, L.P., the entity that operates the transmission and distribution facilities, and Sharyland Distribution & Transmission Services, L.L.C., the entity that owns the transmission and distribution assets, unless otherwise specifically stated.

² See Section V of Oncor witness Mr. James A. Greer's direct testimony filed in this proceeding for additional details regarding the facilities to be exchanged under the Proposed Transaction.

- 1 *for Other Regulatory Approvals* (the “Joint Application”), Oncor will
2 continue to provide safe, high quality, reliable service;
- 3 • I describe my view that the Proposed Transaction will not adversely
4 affect the availability of service;
- 5 • I explain Oncor’s continued ownership of Sharyland’s behind-the-
6 meter lines pursuant to the Stipulation and Settlement Agreement
7 (“Stipulation”) in this proceeding;
- 8 • I discuss the Transition Services Agreement between Oncor and
9 Sharyland and the process of transitioning assets and customers
10 between the companies following the closing of the Proposed
11 Transaction;
- 12 • I discuss the operational regulatory conditions related to the
13 Proposed Transaction that have been agreed upon by Sharyland
14 Utilities, L.P., Sharyland Distribution & Transmission Services,
15 L.L.C., and Oncor (collectively, “Joint Applicants”); and
- 16 • I discuss Oncor’s plans for deploying AMS technology in its newly
17 acquired service territories.

18 This direct testimony was prepared under my direction, supervision,
19 or control and is true and correct. My direct testimony is organized
20 consistent with the topics set forth above.

21 **III. EXPECTED RELIABILITY, AVAILABILITY, AND QUALITY OF**
22 **SERVICE AFTER THE PROPOSED TRANSACTION**

23 Q. ARE YOU FAMILIAR WITH THE PROPOSED TRANSACTION?

24 A. Yes, I am familiar with the Proposed Transaction, which is described in
25 detail in Oncor witness Mr. James A. Greer’s direct testimony filed in this
26 proceeding.

27 Q. DO YOU EXPECT THE PROPOSED TRANSACTION TO CAUSE ANY
28 DECLINE IN THE SERVICE ONCOR CURRENTLY PROVIDES?

29 A. No. I believe that after the Proposed Transaction, Oncor can and will
30 continue to successfully operate and maintain its current transmission and

1 distribution ("T&D") system, as well as the new T&D assets it will acquire
2 from Sharyland, in a safe, reliable, and cost effective manner, consistent
3 with our obligations as a regulated utility. As a matter of comparison,
4 today Oncor serves approximately 3.4 million customers. The addition of
5 the Sharyland distribution system to Oncor will only add approximately
6 54,000 new meters or distribution growth of approximately 1.5%. This
7 growth can efficiently be absorbed by Oncor without impacting quality of
8 service.

9 Q. DO YOU EXPECT THE PROPOSED TRANSACTION TO NEGATIVELY
10 IMPACT ONCOR'S CURRENT LEVEL OF RELIABILITY
11 PERFORMANCE FOR ONCOR'S EXISTING SERVICE AREA?

12 A. No. Oncor has an established record of providing safe and reliable
13 electric service to its customers and will continue to do so following the
14 Proposed Transaction. In addition, after the Proposed Transaction, 16
15 Tex. Admin. Code § 25.52 (TAC) will continue to apply to Oncor. In my
16 opinion, that rule provides a robust and effective framework for incenting
17 utilities to maintain or improve their performance. It requires utilities to
18 focus on reliability performance at a system level as well as on a more
19 localized level (*i.e.*, worst performing feeders). Thus, in my view, 16 TAC
20 § 25.52 ensures that Oncor will have an incentive to maintain or improve
21 its current level of system reliability. As discussed in the direct testimony
22 of Mr. Greer, Oncor is committed to and will strive to improve the reliability
23 of the legacy Sharyland service territory. Separate reliability reporting of
24 this area is requested for the next several years to facilitate this goal.

25 Q. DO YOU EXPECT THE PROPOSED TRANSACTION TO ADVERSELY
26 AFFECT THE AVAILABILITY OF SERVICE?

27 A. No. As stated above, I believe that after the Proposed Transaction, Oncor
28 can and will continue to successfully operate and maintain its current T&D
29 system, as well as the new T&D assets it will acquire from Sharyland, in a
30 safe, reliable, and cost effective manner, consistent with our obligations as

1 a regulated utility. Thus, I do not expect the Proposed Transaction to
2 adversely affect the availability of service.

3 Q. AFTER THE PROPOSED TRANSACTION, WILL ONCOR CONTINUE
4 TO USE THE SAME OPERATING PROCEDURES IT CURRENTLY
5 USES?

6 A. Yes. This transaction will not alter the operating procedures Oncor has
7 developed over its long history of providing reliable service. Over time
8 Oncor will simply extend these practices and procedures to the legacy
9 Sharyland service area.

10 Q. AFTER THE PROPOSED TRANSACTION, WILL ONCOR'S
11 OPERATIONS CONTINUE TO BE SUBJECT TO THE RULES AND
12 STANDARDS IMPOSED BY THE COMMISSION, THE FEDERAL
13 ENERGY REGULATORY COMMISSION, THE NORTH AMERICAN
14 ELECTRIC RELIABILITY CORPORATION, THE TEXAS RELIABILITY
15 ENTITY, AND THE ELECTRIC RELIABILITY COUNCIL OF TEXAS
16 ("ERCOT")?

17 A. Yes.

18 Q. AFTER THE PROPOSED TRANSACTION, WILL ONCOR CONTINUE
19 TO USE THE SAME MAINTENANCE PRACTICES IT CURRENTLY
20 USES FOR ITS T&D ASSETS AND EQUIPMENT?

21 A. Yes. Again, over time Oncor will simply extend its well established
22 practices to the new areas of the grid that will now be Oncor's
23 responsibility.

24 Q. AFTER THE PROPOSED TRANSACTION, WILL ONCOR CONTINUE
25 TO USE THE SAME PERSONNEL IT CURRENTLY USES?

26 A. Yes. Oncor will continue to use its highly experienced and skilled
27 personnel to manage and run the day-to-day operations of its T&D
28 system. Additionally, Oncor hopes to retain a substantial portion of
29 Sharyland's distribution workforce to assist in continuity of service to the
30 legacy Sharyland system.

1 **IV. CONTINUATION OF OWNERSHIP OF BEHIND-THE-METER LINES**

2 Q. PLEASE DESCRIBE SHARYLAND'S CURRENT OWNERSHIP OF
3 BEHIND-THE-METER LINES.

4 A. Pursuant to the Commission's final Orders issued in Docket Nos. 39592
5 and 41474, Sharyland is required to continue owning, operating and
6 maintaining certain distribution lines that are: (1) on the customer's side of
7 an existing meter at its existing location as of the date of the stipulation in
8 Docket No. 39592; and (2) owned by Sharyland as of the date of the
9 stipulation in Docket No. 39592.

10 Q. HOW IS ONCOR ADDRESSING OWNERSHIP OF THE BEHIND-THE-
11 METER LINES IN THIS PROCEEDING?

12 A. Pursuant to the Stipulation, Oncor will continue to own and maintain these
13 limited distribution lines that are on the customer's side of an existing
14 meter at existing locations through December 31, 2019.

15 **V. TRANSITION PROCESS**

16 Q. WHAT PROCESS WILL THE JOINT APPLICANTS USE TO
17 TRANSITION ASSETS BETWEEN ONCOR AND SHARYLAND UPON
18 CLOSING OF THE PROPOSED TRANSACTION?

19 A. Oncor and Sharyland have agreed upon a form of interconnection
20 agreement that will govern operations between the companies after the
21 closing of the Proposed Transaction ("Closing Date"). In general,
22 Sharyland will operate and maintain all the transmission facilities it is
23 receiving from Oncor. Oncor will operate and maintain the distribution
24 system it is receiving from Sharyland. Additionally, Oncor will be
25 responsible for the operation of feeder breakers utilized for distribution
26 service in Stanton and McAllen, which will continue to be owned by
27 Sharyland and located within Sharyland stations. Oncor will be
28 responsible for operation of these facilities because of the direct role these
29 facilities play in Oncor's ability to provide reliable service to the legacy
30 Sharyland distribution system.

- 1 Q. WHAT PROCESS WILL EXIST FOR THE TRANSFERRING OF
2 CUSTOMERS BETWEEN THE COMPANIES?
- 3 A. At a high level, the following process will be utilized to transfer customers
4 from Sharyland to Oncor. Oncor will establish a corresponding new
5 electric service identifier ("ESID") for each existing ESID currently
6 assigned to Sharyland. Following the Closing Date, retail electric
7 providers ("REPs") will initiate "move in" transactions for each new ESID
8 with a date wanted that corresponds to the scheduled monthly meter-
9 reading date. REPs will also submit "move out" transactions for each
10 Sharyland ESID with the same date wanted as the corresponding "move
11 in" transaction on the Oncor ESID. Utilizing this process, all existing
12 Sharyland customers will become Oncor customers within approximately
13 30-60 days following the Closing Date. Thus, customer transfer is
14 designed to occur gradually over the course of approximately one month
15 on the normal monthly meter-reading cycle rather than one mass
16 transition. Several of the regulatory conditions the parties have agreed
17 upon focus on the process to be accomplished for the transfer or creation
18 of new ESIDs.
- 19 Oncor and Sharyland will engage ERCOT, affected REPs, and
20 other interested parties in a series of workshops and market calls to plan
21 and coordinate the transition of Sharyland's current retail electric delivery
22 customers to Oncor pursuant to any applicable ERCOT protocols and
23 guides, as discussed in other regulatory conditions relating to the
24 Proposed Transaction. The goal of these workshops will be to create a
25 more precise schedule for the customer transition that will help ensure
26 customers get transferred in a timely manner to effectuate this transaction.
- 27 Q. WHAT RATES WILL THE AFFECTED REPS BE BILLED FOLLOWING
28 THE CLOSING DATE OF THE PROPOSED TRANSACTION?
- 29 A. The meter-reading that is obtained on the normal monthly meter-read date
30 following the Closing Date and in conjunction with the ERCOT market

1 transition plan will be the final, outgoing reading for Sharyland ESIDs and
2 the start reading for the Oncor ESIDs to use in the next billing cycle. The
3 final meter-read that is processed by Sharyland will be billed to the
4 affected REPs on the Sharyland rate. The next month's meter-reading for
5 each Oncor ESID will be processed by Oncor and will be billed to the
6 affected REPs on the existing Oncor rate in Oncor's Customer Information
7 System at that time.

8 Q. HOW WILL THIS PROCESS IMPACT CUSTOMER BILLING?

9 A. This process should provide that each existing Sharyland customer only
10 receives one bill at Sharyland rates following the Closing Date, depending
11 on the timing of the initiation of the ERCOT market transition plan and the
12 REPs' ability to submit the appropriate transactions.

13 Q. ARE THERE AGREEMENTS BETWEEN THE JOINT APPLICANTS TO
14 HELP FACILITATE THIS PROCESS?

15 A. In connection with Oncor's acquisition of Sharyland's distribution assets
16 and certain of Sharyland's transmission assets (which are identified and
17 discussed in greater detail in the direct testimony of Oncor witness Mr.
18 Greer), and in connection with the wind-down of certain Sharyland
19 operations related thereto, Oncor and Sharyland Utilities, L.P. have
20 agreed upon the terms of a Transition Services Agreement that will be
21 executed on the Closing Date. This Transition Services Agreement will
22 facilitate the transitioning of Sharyland's assets and its customers to
23 Oncor, and Oncor and Sharyland will each perform certain agreed-upon
24 services for a specified length of time immediately following the Closing
25 Date. This Transition Services Agreement is in addition to the
26 responsibilities and obligations that exist for both parties under ERCOT's
27 protocols and its Retail Market Guide.

28 Q. WHAT SERVICES WILL SHARYLAND PROVIDE UNDER THE
29 TRANSITION SERVICES AGREEMENT?

- 1 A. Sharyland will provide the following four types of services under the
2 Transition Services Agreement: (1) field services for the McAllen service
3 territory; (2) customer transition services; (3) customer operations
4 services; and (4) transfer of customer information services.
- 5 Q. PLEASE DESCRIBE THE FIELD SERVICES THAT SHARYLAND WILL
6 PERFORM UNDER THE TRANSITION SERVICES AGREEMENT.
- 7 A. Sharyland will perform distribution field services in the area currently
8 within Sharyland's existing McAllen distribution service territory. These
9 field services will include outage restoration, meter exchanges, new
10 construction based on Oncor's designs and engineering, and other agreed
11 upon services. Sharyland will perform these field services following the
12 Closing Date for a minimum period of 12 months, subject to extension.
13 These field services will be provided at cost to Oncor.
- 14 Q. PLEASE DESCRIBE THE CUSTOMER TRANSITION SERVICES THAT
15 SHARYLAND WILL PERFORM UNDER THE TRANSITION SERVICES
16 AGREEMENT.
- 17 A. Sharyland will work with Oncor, ERCOT, and affected REPs to facilitate
18 the transition of the customers currently within Sharyland's distribution
19 service territories (the "SU Customers") over to Oncor. This will include
20 work discussed above to transfer or create new ESIDs. Sharyland will
21 perform these customer transition services for a period of 60 days
22 following the Closing Date, and Oncor will not be charged for these
23 services.
- 24 Q. PLEASE DESCRIBE THE CUSTOMER OPERATIONS SERVICES THAT
25 SHARYLAND WILL PERFORM UNDER THE TRANSITION SERVICES
26 AGREEMENT.
- 27 A. Sharyland will issue bills to the REPs serving Sharyland ESIDs for post-
28 closing periods that capture time periods prior to the transition of an ESID
29 to Oncor. Sharyland will also perform services in connection with
30 collecting and processing payments from the REPs serving Sharyland

1 ESIDs on Oncor's behalf in the ordinary course of business, as well as
2 redirecting inbound customer calls relating to services rendered post-
3 Closing Date to Oncor's customer service department. Sharyland will
4 begin performing these services following the Closing Date for a period of
5 100 days, and Oncor will not be charged for these services.

6 Q. PLEASE DESCRIBE THE SERVICES RELATED TO THE TRANSFER
7 OF CUSTOMER INFORMATION THAT SHARYLAND WILL PERFORM
8 UNDER THE TRANSITION SERVICES AGREEMENT.

9 A. To the extent permitted by applicable law and not otherwise transferred
10 prior to the Closing Date, Sharyland will provide customer service
11 information to Oncor for the former SU Customers such as ESID
12 requirements, customer names, contact information, premise information,
13 historical usage, meter data, read calendars, pending service requests,
14 and other agreed upon items. Sharyland will provide these services for a
15 minimum period of 100 days following the Closing Date, subject to
16 extension, and Oncor will not be charged for these services.

17 Q. WILL ONCOR BE PERFORMING ANY SERVICES UNDER THE TERMS
18 OF THE TRANSITION SERVICES AGREEMENT?

19 A. Yes. Oncor will be providing customer transition services as well as
20 meter-reading services under the Transition Services Agreement.

21 Q. PLEASE DESCRIBE THE CUSTOMER TRANSITION SERVICES THAT
22 ONCOR WILL PERFORM UNDER THE TRANSITION SERVICES
23 AGREEMENT.

24 A. Oncor will work with Sharyland, ERCOT, and affected REPs to facilitate
25 the transition of the former SU Customers to Oncor, including the transfer
26 or creation of new ESIDs as necessary. Oncor will provide these services
27 for a period of 60 days following the Closing Date, at no charge to
28 Sharyland.

29 Q. PLEASE DESCRIBE THE METER-READING SERVICES THAT ONCOR
30 WILL PERFORM UNDER THE TRANSITION SERVICES AGREEMENT.

- 1 A. Oncor will provide meter-reading services for all of the former SU
2 Customers and will provide Sharyland with the necessary information to
3 enable Sharyland to send out final bills to the former SU Customers.
4 These services will include any follow-up service calls to address and
5 resolve exceptions identified as part of the billing process. Oncor will
6 begin providing these meter-reading services following the Closing Date
7 for a minimum period of 60 days, subject to extension, at no charge to
8 Sharyland.
- 9 Q. WILL ADDITIONAL METERS NEED TO BE INSTALLED AT THE
10 SHARYLAND SUBSTATIONS THAT WILL CONTINUE TO BE OWNED
11 BY SHARYLAND?
- 12 A. Yes. New meters will need to be installed at the Sharyland substations
13 serving feeders in Stanton and McAllen. These meters are necessary
14 because after the Proposed Transaction closes, Sharyland will be
15 providing Distribution Substation Service to Oncor under its Commission-
16 approved wholesale distribution substation service rate. This rate will not
17 be increased as a result of this Proposed Transaction.
- 18 Q. IN YOUR OPINION, DOES THE FORM OF INTERCONNECTION
19 AGREEMENT AND TRANSITION SERVICES AGREEMENT PROVIDE
20 AN APPROPRIATE AND ADEQUATE PROCESS FOR THE
21 TRANSITION OF ASSETS AND CUSTOMERS BETWEEN SHARYLAND
22 AND ONCOR?
- 23 A. Yes, I believe that under the agreed upon Form of Interconnection
24 Agreement and Transition Services Agreement, Oncor and Sharyland can
25 and will successfully transition the utility assets and customers as
26 efficiently as possible following the Closing Date. As provided in the
27 Transition Services Agreement, Oncor and Sharyland will work with
28 ERCOT and each affected REP to make the transition as seamless as
29 possible. While there will undoubtedly be additional issues that arise
30 requiring coordination during the transition and integration process, I am

1 confident that the Oncor and Sharyland operations and customer teams
2 will continue to work together, as they have over the last several months,
3 to ensure quality service is provided to customers.

4 **VI. JOINT APPLICANTS' OPERATIONAL REGULATORY**

5 **CONDITIONS**

6 Q. HAVE THE JOINT APPLICANTS AGREED ON CERTAIN REGULATORY
7 CONDITIONS IN CONNECTION WITH THE PROPOSED
8 TRANSACTION?

9 A. Yes, the Joint Applicants have agreed on a list of regulatory conditions
10 that must be satisfied in order for the Proposed Transaction to close. I
11 have already discussed several of them above. In this section, I will
12 discuss the operational regulatory conditions that require the Joint
13 Applicants to obtain approval from the Commission on matters related to
14 the transfers of certificates of convenience and necessity ("CCNs"),
15 Sharyland's legacy System Average Interruption Duration Index ("SAIDI")
16 and System Average Interruption Frequency Index ("SAIFI"), Oncor's
17 deployment of AMS technology, and pole-setting policies.

18 Q. PLEASE DESCRIBE THE JOINT APPLICANTS' OPERATIONAL
19 REGULATORY CONDITIONS RELATED TO THE TRANSFER OF CCNs.

20 A. In order for the Proposed Transaction to close, the Joint Applicants must
21 obtain Commission approval of the transfer of rights under Sharyland's
22 CCNs to Oncor with all of Sharyland's rights to provide retail electric
23 delivery service (transmission and distribution voltage) in the geographic
24 area currently certificated to Sharyland, including the rights and
25 responsibility to construct facilities necessary for customer interconnection
26 such as the construction of new transmission lines and new load-serving
27 substations. This is necessary for Oncor to be able to provide service
28 under Sharyland's former retail CCNs. Likewise, the Joint Applicants must
29 obtain Commission approval of an amendment to Sharyland's CCNs to
30 permit Sharyland to operate and maintain the transmission assets that will

1 be acquired by Sharyland from Oncor under the Proposed Transaction.
2 The transfer of rights under these CCNs will also impact an existing
3 project currently on file with the Commission in Docket No. 46726.
4 Pursuant to the transfer of rights and the agreed upon regulatory
5 conditions, if approved, Sharyland will construct the Stiles to Coates
6 transmission line, and Oncor will construct the new Coates substation
7 proposed in Docket No. 46726.

8 Q. PLEASE DESCRIBE THE JOINT APPLICANTS' OPERATIONAL
9 REGULATORY CONDITION RELATED TO SHARYLAND'S LEGACY
10 SAIDI AND SAIFI.

11 A. In order for the Proposed Transaction to close, the Joint Applicants must
12 obtain Commission approval of a going-forward method for Oncor to
13 report and tabulate the legacy Sharyland distribution SAIDI and SAIFI that
14 is acceptable to Oncor. Oncor's proposed approach to SAIDI and SAIFI
15 reporting following the Proposed Transaction is described in detail in
16 Section VII of Mr. Greer's direct testimony.

17 Q. PLEASE DESCRIBE THE APPLICANTS' OPERATIONAL REGULATORY
18 CONDITION RELATED TO A SAIDI/SAIFI PENALTY WAIVER.

19 A. In order for the Proposed Transaction to close, the Joint Applicants must
20 obtain Commission approval of a waiver for Oncor of any penalty under 16
21 TAC § 25.52 based on the legacy Sharyland distribution SAIDI and SAIFI
22 that is acceptable to Oncor.

23 Q. PLEASE DESCRIBE THE JOINT APPLICANTS' OPERATIONAL
24 REGULATORY CONDITION RELATED TO AMS DEPLOYMENT.

25 A. Oncor has already deployed AMS throughout its existing service area
26 pursuant to its Commission-approved AMS Deployment Plan and
27 Amended AMS Deployment Plan. In this proceeding, Oncor is seeking
28 Commission approval to deploy AMS in the new service territories Oncor
29 will be acquiring from Sharyland under the Proposed Transaction,
30 including the service territories of Brady, Celeste, Stanton and McAllen.

- 1 Q. WHY IS IT NECESSARY FOR ONCOR TO DEPLOY AMS IN ITS NEWLY
2 ACQUIRED SERVICE TERRITORIES?
- 3 A. The deployment of AMS will benefit the overall market in numerous ways,
4 including but not limited to: facilitating quick customer switches between
5 REPs; allowing remote connections and disconnections, which also
6 enables prepay service; providing customers with access to 15-minute
7 interval data about their usage; and providing ERCOT with 15-minute
8 interval data for market settlements. The deployment of advanced meters
9 also enables the delivery of necessary outage data to Oncor for quicker
10 response and enhances Oncor's data analytics (including theft detection
11 and outage detection). As a result of AMS deployment, customers receive
12 the benefit of more reliable service.
- 13 Q. WHAT IS ONCOR'S PROPOSED TIMELINE FOR DEPLOYING AMS IN
14 ITS NEWLY ACQUIRED SERVICE TERRITORIES?
- 15 A. Oncor intends to install AMS meters on the premises within the newly
16 acquired service territories in 2018. While Oncor is still reviewing the
17 sequence of the deployment areas, AMS deployment will likely begin in
18 the Celeste and Stanton service territories, followed by the Brady service
19 territory. Because older-style automated meter-reading meters are
20 currently being used in the McAllen service territory, and because there is
21 no manual meter-reading expense, Oncor will install AMS meters in that
22 territory last.
- 23 Q. WHAT IS ONCOR'S RATIONALE FOR THIS PROPOSED TIMELINE?
- 24 A. This deployment timeline will ensure that this AMS rollout does not
25 interfere with the hyper-care period and employees' acclimation to the new
26 Customer Information System. Additionally, starting with a small contract
27 workforce for meter deployment over an approximate ten month period
28 should provide better results than a large contract work force over a
29 shorter period would provide. That said, assuming Commission approval,

1 Oncor will monitor AMS deployment activities in each of the service
2 territories and will speed up the deployment if appropriate.
3 Q. PLEASE DESCRIBE THE REGULATORY CONDITION ASSOCIATED
4 WITH POLE SETTINGS.
5 A. Under this regulatory condition, customers in the area currently served by
6 Sharyland who request new service after the Proposed Transaction closes
7 will be required to have their pole set in accordance with Oncor's policy
8 and practice regarding poles and associated equipment. Current
9 customers of Sharyland who become customers of Oncor as a result of
10 the Proposed Transaction will not be required to set their own service
11 poles at the time of their transition to Oncor. However, if those customers'
12 service poles break or are damaged in the future, the customer will be
13 required to have their pole set in accordance with Oncor's policy and
14 practice.

15 **VII. CONCLUSION**

16 Q. PLEASE SUMMARIZE YOUR DIRECT TESTIMONY.
17 A. My direct testimony explains my views that after the Proposed
18 Transaction, Oncor will continue to provide reliable, available, quality
19 electric service to its customers. I discuss Oncor's continued ownership of
20 behind-the-meter lines as well as the Transition Services Agreement that
21 will govern the process of transitioning assets and customers between
22 Oncor and Sharyland following the closing of the Proposed Transaction.
23 Finally, I discuss the Joint Applicants' operational regulatory conditions
24 related to the Proposed Transaction and Oncor's plans for deploying AMS
25 technology in its newly acquired service territories.
26 Q. DOES THIS CONCLUDE YOUR DIRECT TESTIMONY?
27 A. Yes.

AFFIDAVIT

STATE OF TEXAS §
 §
COUNTY OF DALLAS §

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

My name is W. Mark Carpenter. I am of legal age and a resident of the State of Texas. The foregoing direct testimony offered by me is true and correct, and the opinions stated therein are, to the best of my knowledge and belief, accurate, true and correct.



W. Mark Carpenter

SUBSCRIBED AND SWORN TO BEFORE ME by the said W. Mark Carpenter this 3rd day of August, 2017.



Notary Public, State of Texas



**INDEX TO THE DIRECT TESTIMONY
OF STEPHEN N. RAGLAND, WITNESS FOR
ONCOR ELECTRIC DELIVERY COMPANY LLC**

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1 **DIRECT TESTIMONY OF STEPHEN N. RAGLAND**

2 **I. POSITION AND QUALIFICATIONS**

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

5 A. My name is Stephen N. Ragland. My business address is 1616 Woodall
6 Rodgers Freeway, Dallas, Texas 75202. I am employed by Oncor Electric
7 Delivery Company LLC ("Oncor" or "Company") and hold the position of
8 Vice President - Regulatory.

9 Q. PLEASE DESCRIBE YOUR EDUCATIONAL BACKGROUND AND
10 PROFESSIONAL EXPERIENCE.

11 A. I graduated from East Texas State University in 1977 with a Bachelor of
12 Science degree in Business Administration. I was employed by Dallas
13 Power & Light Company in January 1979 as a Junior Accountant and
14 worked in various areas of the corporate accounting department. From
15 1983 to 1986, I was employed by TU Generation as an administrative
16 assistant and was responsible for financial analysis. In 1986, I was
17 named Supervisor within the Regulatory Department of TU Electric
18 Company. In December 1992, I was employed by EFH Corporate
19 Services Company (formerly known as TXU Business Services Company)
20 and appointed Management Support Manager – Texas Utilities Fuel
21 Company. In August 1996, I assumed the position of Management
22 Support Manager – Fuels. I held that position until December 1997, when
23 I became Management Support Manager for the Distribution Business
24 Unit – System Operations. In November 1998, I was appointed to the
25 position of Management Support Manager – TXU Business Services. In
26 September 2001, I assumed the position of Financial Manager in TXU
27 Energy. In July 2002, I was employed by Oncor and appointed Director of
28 Regulatory Financial. I was named to my present position in April 2009. I
29 am a Certified Public Accountant in the State of Texas.

1 Q. WHAT ARE YOUR RESPONSIBILITIES IN YOUR CURRENT
2 POSITION?

3 A. I am responsible for coordinating and managing various activities related
4 to electric utility regulation. These activities include: (1) timely filing of
5 numerous informational reports required by state and federal regulatory
6 agencies; (2) researching and analyzing various rules, laws, and
7 regulations in order to determine their impact on the electric utility industry;
8 (3) serving as liaison between Oncor and the Public Utility Commission of
9 Texas ("Commission") Staff regarding utility financial matters; (4) providing
10 counsel to Oncor management regarding various utility accounting and
11 financial issues; and (5) direction and oversight of Oncor's Consumer
12 Affairs, Rates and Retail Regulation, Regulatory Financial, and Regulatory
13 Support and Compliance organizations. In addition, I am responsible for
14 ensuring that all affiliate transactions are conducted in compliance with the
15 affiliate standards set out in the Public Utility Regulatory Act ("PURA") as
16 codified in the Texas Utilities Code, the Commission's Substantive Rules,
17 and the Company's Code of Conduct.

18 Q. HAVE YOU EVER SUBMITTED TESTIMONY BEFORE THE
19 COMMISSION?

20 A. Yes. I have submitted testimony before the Commission in Docket Nos.
21 22350, 24040, 34040, 35717, 38929, 45188, and 46238. I have also
22 submitted testimony in Gas Utilities Docket Nos. 8976, 9145, 9146, 9147,
23 9148, 9225, 9313, and 9400 before the Railroad Commission of Texas.

24 **II. PURPOSE OF DIRECT TESTIMONY**

25 Q. WHAT IS THE PURPOSE OF YOUR DIRECT TESTIMONY?

26 A. The purpose of my direct testimony is as follows:

- 27 • I explain that the proposed exchange of certain of Oncor's
28 transmission facilities for Sharyland's¹ distribution facilities and

¹ The term "Sharyland" as used herein includes both Sharyland Utilities, L.P., the entity that operates the transmission and distribution ("T&D") facilities, and Sharyland Distribution &

1 certain limited Sharyland transmission facilities (the “Proposed
 2 Transaction”) as further defined and proposed in the *Joint Report*
 3 *and Application of Sharyland Utilities, L.P., and Sharyland*
 4 *Distribution & Transmission Services, L.L.C., and Oncor Electric*
 5 *Delivery Company LLC for Transfer of Facilities, Transfer of Rights*
 6 *Under and Amendment of Certificates of Convenience and*
 7 *Necessity, and for Other Regulatory Approvals* (the “Joint
 8 Application”) will not materially affect Oncor’s cost of service;

- 9 • I explain that Sharyland Utilities, L.P., Sharyland Distribution &
 10 Transmission Services, L.L.C. (“SDTS”), and Oncor (collectively,
 11 “Joint Applicants”) are not seeking to change Oncor’s rates in this
 12 proceeding, and that to the extent Oncor’s rates are changing
 13 based on the Proposed Transaction, such changes are being
 14 addressed in Docket No. 46957, *Application of Oncor Electric*
 15 *Delivery Company LLC for Authority to Change Rates* (pending);
- 16 • I explain that no transaction costs associated with the Proposed
 17 Transaction will be passed on to Oncor ratepayers;
- 18 • I explain that the Proposed Transaction will not affect or reduce the
 19 Commission’s jurisdiction over Oncor;
- 20 • I address the regulatory conditions and commitments reflected in
 21 the Stipulation and Settlement Agreement (“Stipulation”) executed
 22 by Joint Applicants, Commission Staff, and several other parties
 23 listed in the Joint Application; and
- 24 • I explain that, after closing of the Proposed Transaction, Oncor will
 25 continue to comply with applicable Commission requirements and
 26 other applicable regulatory requirements and protocols.

Transmission Services, L.L.C., the entity that owns the T&D assets, unless otherwise specifically stated.

1 My direct testimony was prepared by me or under my direction,
2 supervision, or control, and is true and correct. I will address each topic in
3 the same order reflected in the above listing.

4 **III. ONCOR'S COST OF SERVICE**

5 Q. WILL THE PROPOSED TRANSACTION MATERIALLY AFFECT
6 ONCOR'S COST OF SERVICE?

7 A. No. Oncor's rates will change in response to net changes in its revenue
8 requirement as reflected in a rate case test year or an interim rate update.
9 If the Commission approves the proposed settlement of Oncor's pending
10 base rate case in Docket No. 46957, then Oncor will comply with the rates
11 and terms of that settlement. Additionally, Oncor's customers will not bear
12 any fees and expenses for the Proposed Transaction, and Oncor will not
13 otherwise seek to include such costs or liabilities in Oncor's rates. Thus,
14 there is no reason to believe that Oncor's cost of service, and therefore
15 rates, will be materially affected by the Proposed Transaction.

16 **IV. ONCOR'S CURRENT AND FUTURE RATES**

17 Q. PLEASE DESCRIBE THE BASIS FOR ONCOR'S CURRENT RATES.

18 A. Oncor's rates are based on the standard cost-of-service methodology
19 established in PURA and implemented by the Commission. The
20 Commission approved a settlement of Oncor's last base rate application
21 on August 26, 2011, in Docket No. 38929, *Application of Oncor Electric*
22 *Delivery Company LLC for Authority to Change Rates*. The Commission
23 approved Oncor's last interim adjustment to its transmission cost of
24 service effective March 27, 2017, in Docket No. 46825, *Application of*
25 *Oncor Electric Delivery Company LLC for Interim Update of Wholesale*
26 *Transmission Rates*. Oncor received approval of an update to its
27 transmission cost recovery factor pursuant to 16 Tex. Admin. Code
28 § 25.193(b) to be effective September 1, 2017, in Docket No. 47234,
29 *Petition of Oncor Electric Delivery Company LLC for Approval of*
30 *Transmission Cost Recovery Factor Update*. Proposed revised rates and

1 tariffs are currently before the Commission for its consideration in Oncor's
2 pending base rate case, Docket No. 46957.

3 Q. IS ONCOR SEEKING TO CHANGE ITS RATES IN THIS PROCEEDING?

4 A. No.

5 Q. WILL ANY TRANSACTION COSTS OF THE PROPOSED
6 TRANSACTION BE PASSED ON TO ONCOR RATEPAYERS?

7 A. No. As noted above, Oncor's ratepayers will be held harmless for any
8 fees and expenses associated with the Proposed Transaction. As Oncor
9 witness Mr. R. Keith Pruett discusses in his direct testimony in this
10 proceeding, Oncor will take all of the necessary steps to closely track all
11 transaction costs and will ensure that these costs are not passed on to
12 ratepayers. Additionally, as discussed in greater detail in Sharyland/SDTS
13 witness Mr. Ralph G. Goodlet, Jr.'s direct testimony in this proceeding,
14 Sharyland's Residential class in the Stanton, Brady, and Celeste divisions
15 will receive a retail revenue requirement decrease of \$3 million on an
16 annual basis to take effect beginning 45 days after the order approving
17 interim rates that was issued on July 27, 2017. Oncor will be acquiring a
18 regulatory asset under the Proposed Transaction as a result of this
19 decrease (see Oncor witness Mr. Pruett's direct testimony). Sharyland
20 witness Mr. Goodlet also discusses this issue in his direct testimony.

21 Q. WILL THE PROPOSED TRANSACTION CAUSE ANY CHANGES TO
22 ONCOR'S RATES IN THE FUTURE?

23 A. Yes. As a result of the distribution facilities being acquired by Oncor
24 under the Proposed Transaction, there will be a corresponding increase to
25 Oncor's operating expenses. Recovery of these expenses is being sought
26 in the stipulation filed by Oncor in Docket No. 46957.

27 Q. ARE JOINT APPLICANTS PROPOSING TO CHANGE ONCOR'S TARIFF
28 FOR RETAIL DELIVERY SERVICE OR ITS TARIFF FOR
29 TRANSMISSION SERVICE ("TARIFFS") IN THIS PROCEEDING?

30 A. No. However, the stipulation filed in Docket No. 46957 provides for certain
31 changes to Oncor's Tariffs assuming the Proposed Transaction closes.

1 **V. COMMISSION JURISDICTION**

2 Q. WILL THE PROPOSED TRANSACTION AFFECT OR REDUCE THE
3 COMMISSION'S JURISDICTION OVER THE T&D ASSETS THAT WILL
4 BE EXCHANGED BETWEEN THE JOINT APPLICANTS?

5 A. No. The Commission's jurisdiction over the T&D assets being exchanged
6 as a result of the Proposed Transaction will not change.

7 Q. WILL THE PROPOSED TRANSACTION AFFECT OR REDUCE THE
8 COMMISSION'S JURISDICTION OVER ONCOR?

9 A. No. The Commission's jurisdiction over Oncor will not change as a result
10 of the Proposed Transaction. The Commission will continue to have
11 jurisdiction over both the Company's physical T&D facilities and over the
12 associated services, operations and maintenance of those facilities. After
13 closing of the Proposed Transaction, Oncor will continue to be considered
14 an electric utility under PURA that is subject to regulation by the
15 Commission. The Commission will also continue to have full access to the
16 books and records of the Company to the extent necessary for the
17 Commission to carry out its regulatory responsibilities, including setting
18 rates.

19 Q. IS THE PROPOSED TRANSACTION A MEANS OF EVADING
20 REGULATORY OVERSIGHT?

21 A. No, the Proposed Transaction is not a means of evading regulatory
22 oversight. As I explain above, Oncor will remain subject to the same
23 regulatory oversight that it experiences today.

24 **VI. ONCOR'S CONTINUED COMPLIANCE WITH REGULATORY**
25 **REQUIREMENTS**

26 Q. WILL THE PROPOSED TRANSACTION HAVE ANY NEGATIVE IMPACT
27 ON ONCOR'S CONTINUED COMPLIANCE WITH COMMISSION
28 REQUIREMENTS?

29 A. No. As I describe below, Oncor will continue to be responsible for
30 complying with all applicable Commission requirements just as it has done
31 in the past and continues to do today.

1 Q. AFTER CLOSING OF THE PROPOSED TRANSACTION, WILL THERE
2 BE ANY SIGNIFICANT DIFFERENCES IN HOW ONCOR COMPLIES
3 WITH COMMISSION REQUIREMENTS?

4 A. No. The Company will continue being responsible for compliance with all
5 applicable Commission requirements, including the preparation and filing
6 of earnings monitoring reports and any other applicable reports, as well as
7 compliance with its Code of Conduct and all other applicable rules.

8 Q. ARE JOINT APPLICANTS PROPOSING ANY CHANGES TO ONCOR'S
9 CURRENT CODE OF CONDUCT AND RELATED POLICIES?

10 A. No. The Proposed Transaction is an asset exchange and does not
11 involve the creation of any new Oncor affiliates.

12 Q. WILL THE PROPOSED TRANSACTION HAVE ANY NEGATIVE IMPACT
13 ON ONCOR'S CONTINUED COMPLIANCE WITH ANY OTHER
14 APPLICABLE REQUIREMENTS?

15 A. No. Oncor will continue to be responsible for compliance with all
16 applicable requirements, including Electric Reliability Council of Texas,
17 Inc. protocols and requirements, and other reliability standards and
18 requirements, just as the Company is today. Oncor witness Mr. James A.
19 Greer discusses reliability compliance in his direct testimony.

20 Q. DOES THE PROPOSED TRANSACTION RESULT IN ANY
21 CONCENTRATION OF MARKET POWER OR IMPEDE COMPETITION?

22 A. No. After the Proposed Transaction closes, Oncor will continue to
23 maintain compliance with PURA, its Code of Conduct, and all applicable
24 rules and requirements of the Commission. Neither Oncor nor Sharyland
25 owns generation or sells electricity. Thus, the Proposed Transaction has
26 no impact on market power or competition.

27 **VII. REGULATORY CONDITIONS AND COMMITMENTS**

28 Q. HAVE YOU REVIEWED THE REGULATORY CONDITIONS AND
29 COMMITMENTS THAT HAVE BEEN MADE IN SUPPORT OF THE
30 JOINT APPLICATION IN THIS PROCEEDING AND THE STIPULATION
31 IN DOCKET NO. 46957?

1 A. Yes, I have reviewed all of the regulatory conditions and commitments
2 made in support of the Joint Application and those contained in the Docket
3 No. 46957 stipulation.

4 Q. WHAT REGULATORY CONDITIONS AND COMMITMENTS FORM THE
5 BASIS OF THE JOINT APPLICATION?

6 A. The regulatory conditions to the closing of the Proposed Transaction are
7 contained in the merger agreement (see Exhibit E) and are largely
8 reflected in the Stipulation attached to the Joint Application as Exhibit A.
9 Those conditions include, among others, that the settlement of both
10 Sharyland's and Oncor's respective pending base rate cases are
11 approved in all material aspects as proposed by Sharyland and Oncor in
12 their respective dockets. Other of the regulatory conditions and
13 commitments are designed to ensure the appropriate transition of
14 Sharyland's retail electric delivery customers to Oncor and that Joint
15 Applicants do not experience significant economic harm as a result of
16 closing the Proposed Transaction.

17 Please refer to Sharyland/SDTS witness Mr. Goodlet's direct
18 testimony for further details on the Stipulation.

19 Q. DO THE REGULATORY CONDITIONS AND COMMITMENTS AS
20 REFLECTED IN THE STIPULATION SUPPORT APPROVAL OF THE
21 PROPOSED TRANSACTION AS IN THE PUBLIC INTEREST?

22 A. Yes, I believe that the regulatory conditions to closing and the regulatory
23 commitments contained in the Stipulation support the Commission finding
24 that the Proposed Transaction is in the public interest. As I explain above,
25 the Stipulation provides assurance to the Commission that ratepayers will
26 not be harmed as a result of the Proposed Transaction and that the
27 Proposed Transaction will not interfere with the Commission's ability to
28 regulate Oncor. Thus, I believe that the regulatory conditions and
29 commitments reflected in the Stipulation support the Commission's
30 approval of the Proposed Transaction.

VIII. CONCLUSION

1
2 Q. PLEASE SUMMARIZE YOUR DIRECT TESTIMONY.

3 A. As I explain above, the Proposed Transaction will not materially affect
4 Oncor's cost of service. Joint Applicants are not seeking to change
5 Oncor's rates in this proceeding; any changes to Oncor's rates and Tariffs
6 are being addressed in Docket No. 46957. Additionally, no transaction
7 costs associated with the Proposed Transaction will be passed on to
8 Oncor ratepayers. The Commission's jurisdiction will not be affected or
9 reduced by the Proposed Transaction, and Oncor will continue to be
10 responsible for compliance with all applicable Commission and other
11 regulatory requirements, just as the Company is today. Finally, the
12 regulatory conditions to closing and commitments reflected in the
13 Stipulation and made in support of the Proposed Transaction support the
14 Commission finding that the Proposed Transaction is in the public interest

15 Q. DOES THIS CONCLUDE YOUR DIRECT TESTIMONY?

16 A. Yes.

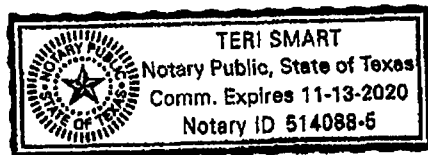
STATE OF TEXAS §
 §
COUNTY OF DALLAS §

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

My name is Stephen N. Ragland. I am of legal age and a resident of the State of Texas. The foregoing direct testimony offered by me is true and correct, and the opinions stated therein are, to the best of my knowledge and belief, accurate, true, and correct.


Stephen N. Ragland

SUBSCRIBED AND SWORN TO BEFORE ME by the said Stephen N. Ragland this 3rd day of August, 2017.




Notary Public, State of Texas

PUC Docket No. _____

Ragland - Direct
Oncor Electric Delivery

**INDEX TO THE DIRECT TESTIMONY
OF R. KEITH PRUETT, WITNESS FOR
ONCOR ELECTRIC DELIVERY COMPANY LLC**

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1 **DIRECT TESTIMONY OF R. KEITH PRUETT**

2 **I. POSITION AND QUALIFICATIONS**

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

5 A. My name is R. Keith Pruett. My business address is 1616 Woodall Rogers
6 Freeway, Dallas, Texas, 75202. I am Director of Accounting for Oncor Electric
7 Delivery Company LLC ("Oncor" or "Company").

8 Q. PLEASE SUMMARIZE YOUR EDUCATIONAL BACKGROUND AND
9 PREVIOUS BUSINESS EXPERIENCE.

10 A. I received a Bachelor of Business Administration degree in accounting from the
11 University of Texas at Arlington in 1982.

12 I began my service in the TXU Corp. system at Dallas Power & Light
13 Company in 1974, where I held various operational and accounting positions,
14 including serving as Construction Accounting Supervisor from 1985 to 1986. In
15 1987, I transferred to Texas Utilities Electric Company (subsequently TXU
16 Electric Company) as Plant Accounting Supervisor. In 1993, I transferred to
17 Texas Utilities Services Inc. (subsequently TXU Business Services Company)
18 and was appointed Transmission and Distribution Plant Accounting Manager,
19 where I assisted in the development of the Company's fixed asset accounting
20 system. In 1994, I became the Property Systems and Accounting Policies and
21 Procedures Manager. While still serving in this position in 1995, I was a member
22 of a team that implemented the separate financial reporting process for the
23 functionalized business units of TXU Electric Company. In 1996, I was named
24 the Accounting Process Improvements Project Manager. Subsequently, in
25 October 1997, I was appointed Corporate Accounting Manager for Electric and
26 Gas Utility Services. In November 1999, I was named as the Regulatory
27 Accounting Manager at TXU Business Services Company ("TXU Business
28 Services"), where I ultimately oversaw the functional unbundling of TXU Electric
29 Company's financial statements into a company with regulated transmission and
30 distribution business units and unregulated competitive businesses, effective
31 January 1, 2002. In November 2001, I was appointed to the position of

1 Corporate Accounting Manager for the TXU Corp. electric and gas delivery
2 businesses. Following the 2004 restructuring of the TXU Corp. businesses, I
3 was named to my current position of Oncor Director of Accounting.

4 Q. PLEASE DESCRIBE YOUR PRIMARY RESPONSIBILITIES AS ONCOR'S
5 DIRECTOR OF ACCOUNTING.

6 A. In this role, I manage Oncor's Accounting organization to ensure that financial
7 information is collected, summarized, and reported in accordance with
8 accounting principles generally accepted in the United States for all Oncor
9 business activities. Further, Oncor's Accounting organization ensures that the
10 books and records of the Company are maintained in a manner consistent with
11 sound regulatory policies and procedures to reflect compliance with rules
12 established, and regulatory orders issued, by the Public Utility Commission of
13 Texas ("Commission") and other regulatory bodies.

14 Q. DO YOU HOLD ANY CERTIFICATIONS?

15 A. Yes. I am licensed as a Certified Public Accountant in the State of Texas.

16 Q. HAVE YOU PREVIOUSLY TESTIFIED BEFORE ANY REGULATORY
17 COMMISSIONS?

18 A. Yes. I have testified before the Commission in Docket Nos. 15638, 21527,
19 22350, 35717, and 40868, and pre-filed testimony in Docket Nos. 34040, 35718,
20 38929, 39552, 41814, 44671, and 46957. In addition, I testified on behalf of TXU
21 Gas Company before the Railroad Commission of Texas in Gas Utilities Docket
22 No. 9400. In general, my prior testimony has addressed issues concerning
23 financial and accounting data, cost of service, rate base, and related cost
24 adjustments.

25 **II. PURPOSE OF DIRECT TESTIMONY**

26 Q. PLEASE PROVIDE AN OVERVIEW OF YOUR DIRECT TESTIMONY IN THIS
27 PROCEEDING.

28 A. My direct testimony addresses the financial and accounting impacts of the
29 proposed exchange of certain of Oncor's 345 kV transmission lines for all of

1 Sharyland's¹ property and other assets used in Sharyland's retail electric
2 distribution business (the "Proposed Transaction")² as proposed in the *Joint*
3 *Report and Application of Sharyland Utilities, L.P., Sharyland Distribution &*
4 *Transmission Services, L.L.C., and Oncor Electric Delivery Company LLC for*
5 *Transfer of Facilities, Transfer of Rights Under and Amendment of Certificates of*
6 *Convenience and Necessity, and for Other Regulatory Approvals* (the "Joint
7 Application"). I will refer to Sharyland and Oncor collectively as the "Joint
8 Applicants." The testimony and exhibits that I sponsor were prepared under my
9 direction, supervision, or control and are, to the best of my knowledge and belief,
10 true and correct.

11 Q. WHAT OTHER AREAS DO YOU ADDRESS IN YOUR DIRECT TESTIMONY?

12 A. In addition to discussing the financial and accounting impacts related to the
13 Proposed Transaction, my direct testimony will also serve to:

- 14 • discuss the adjustments that have been made to Oncor's rate base and
15 certain operating costs in connection with the Proposed Transaction;
- 16 • explain that none of the transaction costs of the Proposed Transaction will be
17 borne by Oncor's customers;
- 18 • explain that any goodwill that may be associated with the Proposed
19 Transaction will not be included in or in any way impact Oncor's rates;
- 20 • provide an overview of the estimated amounts Oncor is seeking authorization
21 to record as regulatory assets and/or regulatory liabilities consistent with the
22 Stipulation and Settlement Agreement ("Stipulation") in support of the
23 Proposed Transaction; and
- 24 • discuss Oncor's accounting entries necessary to record the Proposed
25 Transaction assuming it closes.

1 The term "Sharyland" as used herein includes both Sharyland Utilities, L.P., the entity that operates the transmission and distribution facilities, and Sharyland Distribution & Transmission Services, L.L.C. ("SDTS"), the entity that owns the transmission and distribution assets, unless otherwise specifically stated.

2 See Oncor witness Mr. James A. Greer's direct testimony filed in this proceeding for additional details regarding the facilities to be exchanged under the Proposed Transaction.

III. FINANCIAL AND ACCOUNTING IMPACTS OF THE PROPOSED TRANSACTION

Q. PLEASE DESCRIBE ONCOR'S CURRENT DEBT-TO-EQUITY RATIO.

A. Oncor's current regulatory debt-to-equity ratio is 60% debt and 40% equity. However, in Oncor's pending base rate case in Docket No. 46957, *Application of Oncor Electric Delivery Company LLC for Authority to Change Rates*, Oncor and the signatories to a stipulation in that docket have agreed to and are proposing a new regulatory debt-to-equity ratio of 57.5% debt and 42.5% equity.

Q. WILL THE PROPOSED TRANSACTION HAVE ANY IMPACT ON ONCOR'S DEBT-TO-EQUITY RATIO GOING FORWARD?

A. No. Immediately after the closing of the Proposed Transaction, Oncor will have the same capital structure as proposed in the pending base rate case stipulation in Docket No. 46957. All of the currently existing long-term debt of Oncor will continue to be obligations of Oncor. Because Oncor's long-term capital is not identifiable to any specific asset or asset class, the amount of long-term capital that previously funded the investment in the transmission facilities transferred from Oncor to Sharyland will now serve to fund the investment in distribution facilities transferred from Sharyland to Oncor.

Q. PLEASE COMMENT ON ANY ACCOUNTING IMPACTS OF THE PROPOSED TRANSACTION ON ONCOR.

A. As prescribed by 16 Tex. Admin. Code § 25.72 (TAC), both Oncor and Sharyland maintain their books and records in compliance with the methodologies prescribed in the Federal Energy Regulatory Commission ("FERC") Uniform System of Accounts. Following the closing of the Proposed Transaction, Oncor will consolidate the investment in distribution-related property and other assets transferred by Sharyland with Oncor's existing distribution-related investments, by FERC account. In accordance with the Proposed Transaction, Oncor's net plant investment in transmission assets that are transferred to Sharyland will be removed from Oncor's books and records. The depreciation rates to be approved in the pending base rate case stipulation in Docket No. 46957 will apply to the assets that Oncor receives from Sharyland in the Proposed

1 Transaction. Costs to replace and maintain the properties that were transferred
2 from Sharyland will be accounted for in accordance with Oncor's existing
3 capitalization and maintenance policies. As soon as practical, Oncor will
4 consolidate Sharyland's retail electric delivery customer, operational and financial
5 information into Oncor's existing computer business systems. Since Oncor and
6 Sharyland account for costs in accordance with the FERC's Uniform System of
7 Accounts, I do not anticipate any changes to Oncor's existing accounting policies
8 and business processes relative to the Proposed Transaction.

9 Q. WHAT TAX-RELATED IMPACTS WILL THE PROPOSED TRANSACTION
10 HAVE ON ONCOR?

11 A. Please see the direct testimony of Joint Applicants' witness Mr. Salvatore
12 Montalbano for a discussion of the tax-related impacts of the Proposed
13 Transaction.

14 Q. PLEASE PROVIDE AN OVERVIEW OF THE ADJUSTMENTS TO ONCOR'S
15 RATE BASE THAT HAVE BEEN OR WILL BE MADE AS A RESULT OF THE
16 PROPOSED TRANSACTION.

17 A. Under the pending base rate case stipulation in Docket No. 46957, all net plant
18 investment in distribution, transmission, general and intangible electric plant in
19 service assets that are to be transferred to Oncor under the Proposed
20 Transaction are deemed to be used and useful to Oncor in providing service and
21 are prudent, reasonable, necessary, and includable in Oncor's rate base. The
22 inclusion of the Sharyland net electric plant in service assets in Oncor's rate base
23 is in the estimated amount of \$384,618,442, as reflected by FERC Account in my
24 Exhibit RKP-1. Oncor is also purchasing Sharyland's remaining investment in
25 distribution-related materials and supplies inventory in the estimated amount of
26 \$179,277 and its balance in distribution-related Construction Work in Progress in
27 the estimated amount of \$27,438,543 as part of the Proposed Transaction.
28 Additionally, as I discuss below in Section IV of my direct testimony, Oncor is
29 seeking authorization to record certain costs as regulatory assets consistent with
30 the Stipulation. As part of that pending base rate case stipulation in Docket No.
31 46957, Oncor is seeking approval of certain adjustments to Oncor's revenue

1 requirement to reflect increases to distribution-related operating costs due to the
2 Proposed Transaction. Exhibit RKP-2 to my direct testimony reflects the
3 estimated amounts and corresponding FERC accounts that Oncor will record on
4 its books at the time the Proposed Transaction closes.

5 Q. WILL ONCOR'S CUSTOMERS BEAR ANY OF ONCOR'S TRANSACTION
6 COSTS OF THE PROPOSED TRANSACTION?

7 A. No. None of the fees and expenses, or any of the other transaction costs of the
8 Proposed Transaction, including the costs of this proceeding, will be borne by
9 Oncor's customers. Oncor will take the necessary measures to closely track the
10 transaction costs incurred in connection with the Proposed Transaction.

11 Q. WILL THE EXISTENCE OF ANY GOODWILL ASSOCIATED WITH THE
12 PROPOSED TRANSACTION IMPACT ONCOR'S RATES?

13 A. No. Goodwill associated with the Proposed Transaction, if any, will not be
14 included in or in any way impact Oncor's future rate requests. Any goodwill
15 additions, write-downs, or other adjustments that may arise as a result of the
16 Proposed Transaction will not be included in rate base or operating expenses in
17 future rate filings with the Commission.

18 **IV. REGULATORY ASSETS AND/OR REGULATORY LIABILITIES**

19 Q. PLEASE EXPLAIN WHAT GIVES RISE TO REGULATORY ASSETS AND
20 REGULATORY LIABILITIES?

21 A. Regulatory assets and regulatory liabilities are, as their names imply, creations of
22 regulation. In accordance with the requirements of Accounting Standards
23 Codification 980, *Regulated Operations* (formerly SFAS No. 71), the Company
24 defers or capitalizes the recognition of certain costs (regulatory assets) and
25 certain obligations (regulatory liabilities) that, as a result of the ratemaking
26 process, have probable corresponding increases or decreases in future
27 revenues.

28 Q. IS ONCOR SEEKING COMMISSION APPROVAL TO DEFER AND RECORD
29 CERTAIN COSTS AS REGULATORY ASSETS AND/OR REGULATORY
30 LIABILITIES IN THIS PROCEEDING?

1 A. Yes. Consistent with the Stipulation, Oncor seeks Commission approval in this
2 proceeding to establish the balances existing in Sharyland's transmission cost
3 recovery factor ("TCRF") and the energy efficiency cost recovery factor
4 ("EECRF") regulatory assets and or regulatory liabilities at the time of closing on
5 Oncor's books and to authorize Oncor to include these amounts in Oncor's next
6 TCRF and EECRF rate proceedings following the closing of the Proposed
7 Transaction. As I discuss below, these regulatory assets and/or regulatory
8 liabilities have been established in accordance with the Commission's
9 Substantive Rules, and the balances will reflect Sharyland's under-/over-
10 recovered TCRF and EECRF costs existing at the time of closing of the
11 Proposed Transaction.

12 Q. IS ONCOR SEEKING COMMISSION APPROVAL TO RECORD ANY
13 ADDITIONAL REGULATORY ASSETS IN THIS PROCEEDING?

14 A. Yes. Pursuant to the Stipulation, Oncor is also seeking Commission approval in
15 this proceeding to record two additional regulatory assets. These two regulatory
16 assets include: (1) the Sharyland interim rate regulatory asset that I will discuss
17 later in my testimony, and (2) a potential regulatory asset related to accumulated
18 deferred federal income tax ("ADFIT") as discussed in the direct testimony of
19 Joint Applicants' witness Mr. Montalbano. While Oncor is seeking Commission
20 approval to record the costs associated with Sharyland's interim rates as a
21 regulatory asset and to potentially create a new regulatory asset relating to
22 ADFIT in this proceeding, Oncor proposes that the manner in which it will recover
23 these regulatory assets be determined in a future rate proceeding.

24 Q. PLEASE DESCRIBE THE INTERIM RATE REGULATORY ASSET INCLUDED
25 IN THE STIPULATION.

26 A. Sharyland obtained approval in its pending rate case, Docket No. 45414, to
27 implement interim residential class rates for its Stanton, Brady and Celeste
28 divisions ("Interim Rates"). The Interim Rates reflect a residential class revenue
29 requirement decrease of \$3 million on an annual basis for the Stanton, Brady and
30 Celeste divisions. The Interim Rates will take effect beginning on September 10,
31 2017, which is 45 days after entry of the order approving the Interim Rates. The

1 Interim Rates shall continue in effect until the earlier of (i) the date upon which all
2 of Sharyland's retail electric delivery customers in the residential class in the
3 Stanton, Brady, and Celeste divisions have been transitioned to Oncor; or (ii) in
4 the event the Agreement and Plan of Merger among Joint Applicants ("Merger
5 Agreement") is terminated prior to closing, the effective date of Sharyland's new
6 residential retail electric delivery rates finally ordered in Docket No. 45414.
7 Beginning on the date that Interim Rates take effect, Sharyland will record as a
8 regulatory asset the difference between the money collected under the approved
9 Interim Rates and the amount of money that would have been collected under
10 Sharyland's retail electric delivery rates approved by the Commission in
11 Sharyland's last rate case, Docket No. 41474 (the "Interim Rate Regulatory
12 Asset").

13 Q. HOW DOES ONCOR PROPOSE TO ACCOUNT FOR SHARYLAND'S INTERIM
14 RATE REGULATORY ASSET?

15 A. At closing of the Proposed Transaction, Oncor will make a cash payment to
16 Sharyland to purchase the Interim Rate Regulatory Asset for the book value
17 amount of the regulatory asset. Under the Merger Agreement, Oncor will
18 purchase the Interim Rate Regulatory Asset at closing, and consistent with the
19 Stipulation, Oncor requests the Commission's approval in this proceeding to
20 recover the balance in the Interim Rate Regulatory Asset account. The manner
21 in which the Interim Rate Regulatory Asset will be recovered will be determined
22 in a future rate proceeding. The amount will be updated to reflect Sharyland's
23 book value as of the closing date.

24 Q. WHY IS IT APPROPRIATE FOR ONCOR TO ACCOUNT FOR THIS AMOUNT
25 AS A REGULATORY ASSET?

26 A. At the time of closing of the Proposed Transaction, Oncor will make a cash
27 payment to Sharyland to purchase the Interim Rate Regulatory Asset for book
28 value. In accordance with the Stipulation, Oncor requests a finding from the
29 Commission for approval and recovery of the Interim Rate Regulatory Asset to
30 ensure there is no financial harm to Oncor for acquiring the cost of the rate
31 reduction provided to Sharyland's legacy customers.

- 1 Q. PLEASE DESCRIBE SHARYLAND'S ESTIMATED TCRF REGULATORY
2 ASSET INCLUDED IN THE JOINT APPLICATION IN THIS PROCEEDING.
- 3 A. TCRF is a distribution rate charged to retail electric providers ("REP") to recover
4 fees that the distribution utility pays to transmission service providers ("TSP")
5 based on the TSP's Commission-approved rates. The distribution service
6 provider's ("DSP") transmission costs are reconcilable in accordance with 16
7 TAC § 25.193(b)(2)(B), whereby regulatory assets or regulatory liabilities are
8 established to reflect the differences between the revenues recovered through
9 the DSP's TCRF tariff as compared to the amount of the TSP's wholesale
10 transmission costs that are paid by the DSP. The regulatory asset (or regulatory
11 liability) results from Sharyland's incurred costs and will transfer from Sharyland
12 to Oncor for book value as part of the Proposed Transaction. Therefore, Oncor
13 seeks Commission approval in this proceeding to combine the Sharyland
14 regulatory asset or liability amount with Oncor's TCRF regulatory asset or
15 liability. This combined amount would then be included in Oncor's next TCRF
16 rate proceeding following the closing of the Proposed Transaction. The amount
17 will be updated to reflect Sharyland's book value as of the closing date.
- 18 Q. WHY IS IT APPROPRIATE FOR ONCOR TO ACCOUNT FOR SHARYLAND'S
19 TCRF REGULATORY ASSET OR LIABILITY AS PART OF ONCOR'S TCRF
20 REGULATORY ASSET OR REGULATORY LIABILITY?
- 21 A. Sharyland's TCRF regulatory asset or liability has been calculated in accordance
22 with 16 TAC § 25.193(b)(2)(B). Upon closing of the Proposed Transaction,
23 Sharyland's retail electric delivery customers will become Oncor's retail electric
24 delivery customers with Sharyland serving only as a TSP. As such, Sharyland
25 will no longer be a DSP and, therefore, will no longer have a TCRF tariff in which
26 the Sharyland TCRF regulatory asset or liability can be collected from or returned
27 to distribution ratepayers. As part of the Joint Application, Oncor will acquire
28 Sharyland's TCRF regulatory asset or liability for book value. Consistent with the
29 Stipulation, Oncor seeks approval to include the balance of the Sharyland TCRF
30 regulatory asset or liability as part of the Company's own TCRF rate because
31 following the closing of the Proposed Transaction, Oncor will serve Sharyland's

1 former distribution customers, and these customers will now pay Oncor's DSP
2 rates including the TCRF.

3 Q. PLEASE DESCRIBE SHARYLAND'S ESTIMATED EECRF REGULATORY
4 ASSET INCLUDED IN THE JOINT APPLICATION IN THIS PROCEEDING.

5 A. EECRF is a distribution tariff charged to REPs to recover the distribution utility's
6 energy efficiency program costs necessary to reduce demand and energy
7 growth. Sharyland and Oncor, as DSPs, record Energy Efficiency Program
8 regulatory assets or regulatory liabilities that reflect differences between the
9 amount of EECRF revenues that are collected to fund energy efficiency program
10 costs and the actual program costs that have been incurred to achieve energy
11 efficiency goals. Energy Efficiency Program costs are reconcilable in accordance
12 with 16 TAC § 25.181(f)(10)(D), whereby regulatory assets or regulatory liabilities
13 are established for any under- or over-recovery of EECRF costs. At the time of
14 closing, Oncor shall acquire from Sharyland its EECRF regulatory asset or
15 liability for book value and combine this with the EECRF regulatory asset or
16 liability on Oncor's books.

17 Q. WHY IS IT APPROPRIATE FOR ONCOR TO ACCOUNT FOR THE EECRF
18 REGULATORY ASSET AS PART OF ONCOR'S OWN EECRF COSTS?

19 A. The Sharyland's EECRF regulatory asset is calculated in accordance with 16
20 TAC § 25.181(f). As stated above, upon closing of the Proposed Transaction,
21 Sharyland's retail electric delivery customers will become Oncor's retail electric
22 delivery customers with Sharyland serving only as a TSP. As such, Sharyland
23 will no longer be a DSP and, therefore, will no longer have an EECRF tariff in
24 which the Sharyland EECRF regulatory asset or liability can be collected from or
25 returned to distribution customers. Pursuant to the Stipulation, Oncor will acquire
26 Sharyland's EECRF regulatory asset or liability for book value. As reflected in
27 the Regulatory Conditions of the Joint Application, Oncor seeks approval to
28 recover or refund the balance in the Sharyland EECRF regulatory asset or
29 liability respectively and include this amount as part of Oncor's EECRF rate.
30 Following the closing of the Proposed Transaction, Oncor will serve Sharyland's

1 former retail electric delivery customers, and these customers will now pay
2 Oncor's DSP rates including EECRF.

3 Q. PLEASE DESCRIBE THE POTENTIAL REGULATORY ASSET RELATED TO
4 ADFIT INCLUDED IN THE JOINT APPLICATION IN THIS PROCEEDING.

5 A. In connection with the Proposed Transaction, SDTS and Oncor will each be
6 seeking a Private Letter Ruling ("PLR") from the Internal Revenue Service
7 concerning the Joint Applicants' proposed treatment of ADFIT. In both this
8 proceeding and in the base rate case stipulation pending in Docket No. 46957,
9 Oncor is seeking approval to create a regulatory asset pending the outcome of
10 the requested PLR. Please refer to Joint Applicants' witness Mr. Montalbano's
11 direct testimony for details regarding this aspect of the Stipulation.

12 Q. WOULD YOU PLEASE DESCRIBE THE REGULATORY ASSET THAT IS PART
13 OF THE PROPOSED TRANSACTION RELATED TO THE SHARYLAND
14 WHOLESALE DISTRIBUTION SUBSTATION SERVICE TARIFF THAT HAS
15 BEEN INCLUDED IN ONCOR'S PENDING BASE RATE CASE DOCKET NO.
16 46957?

17 A. Yes. Due to Sharyland retaining certain distribution substation facilities that inter-
18 connect Sharyland's high-voltage transmission network to the distribution
19 facilities acquired by Oncor under the Proposed Transaction, Oncor will pay
20 Sharyland a Wholesale Distribution Substation Service tariff for transforming or
21 "converting" power from transmission voltage levels to distribution voltage levels
22 in order to serve distribution load. Oncor seeks approval to create a regulatory
23 asset for the on-going costs of Sharyland's Wholesale Distribution Substation
24 Service tariffs in Docket No. 46957.

25 Q. WHY IS IT APPROPRIATE FOR ONCOR TO ACCOUNT FOR THIS AMOUNT
26 AS A REGULATORY ASSET?

27 A. A consequence of distribution transformation services remaining with Sharyland
28 is that Oncor has no ability to avoid, manage or control these costs since Oncor
29 does not provide the underlying service to its distribution customers. Similar to
30 the transmission cost recovery mechanism utilized by distribution service
31 providers, the Company's proposal to create a regulatory asset addresses this

1 situation by simply ensuring that Oncor's revenues are sufficient to cover
2 wholesale distribution substation service costs.

3 **V. ACCOUNTING TREATMENT OF ACQUIRED SHARYLAND FACILITIES**

4 Q. PLEASE DESCRIBE THE MANNER IN WHICH THE EXCHANGED ASSETS
5 UNDER THE PROPOSED TRANSACTION WILL BE RECORDED ON
6 ONCOR'S BOOKS.

7 A. Oncor shall account for the Proposed Transaction in accordance with Electric
8 Plant Instruction No. 5 - - "Electric Plant Purchased or Sold" - - as directed by
9 Part 101 of the FERC Uniform System of Accounts. This instruction states that
10 when electric plant constituting an operating unit or system is acquired by
11 purchase, merger, consolidation, or otherwise, the costs of the acquisition shall
12 be charged to FERC Account no. 102, Electric Plant Purchased or Sold. In
13 accordance with the instructions for FERC Account No. 102, Oncor shall debit
14 this account with the book value of the transmission assets that will be
15 transferred to Sharyland and shall charge (*i.e.*, credit) this account with the book
16 value of the electric plant that will be acquired from Sharyland. Oncor shall also
17 charge this account for the amount of cash consideration that will be paid to
18 Sharyland representing the difference in the book values of the property assets
19 included in the exchange.

20 The accounting for the Proposed Transaction shall be completed by
21 crediting Account 102 for the cost of the properties received from Sharyland and
22 correspondingly recording (*i.e.*, debiting) the costs to the appropriate Oncor
23 electric plant in service accounts including Account's 101 and 108, Account 107
24 (Construction Work in Progress), Account 121 (Non-Utility Plant), and Account
25 114 (Electric Plant Acquisition Adjustments). The entries to record the exchange
26 of the facilities are contained in Exhibit RKP-2 to my direct testimony.

27 Q. WILL ONCOR RECORD ANY GAINS OR LOSSES ASSOCIATED WITH THE
28 SALE OF AN OPERATING UNIT OR SYSTEM AS A RESULT OF THE
29 PROPOSED TRANSACTION?

30 A. No. The Proposed Transaction has been structured so that Oncor and
31 Sharyland both receive assets and/or other consideration in an amount equal to

1 the book value of the assets that have been exchanged. Because the values of
2 the assets to be exchanged and/or purchased are based on each company's
3 book values with no mark-up or profit included in the exchange, there are no
4 gains or losses arising from the Proposed Transaction.

5 Q. DOES THE PROPOSED TRANSACTION CREATE AN ACQUISITION
6 ADJUSTMENT?

7 A. No. An electric plant acquisition adjustment arises when a utility purchases plant
8 assets from another utility at a price that is either lower or higher than net book
9 value. All assets to be exchanged and purchased as part of the Proposed
10 Transaction are transferred at each company's respective net book values in the
11 properties.

12 **VI. CONCLUSION**

13 Q. PLEASE SUMMARIZE YOUR DIRECT TESTIMONY.

14 A. My direct testimony describes the financial and accounting impacts of the
15 Proposed Transaction and explains that the Proposed Transaction will not impact
16 Oncor's capital structure going forward. I explain that Oncor's customers will not
17 bear any of Oncor's transaction costs for the Proposed Transaction and that
18 Oncor's rates will not be impacted by any goodwill that may be associated with
19 the Proposed Transaction. I discuss the items that, pursuant to the Stipulation,
20 Oncor is seeking authorization to record as regulatory assets in connection with
21 the Proposed Transaction, as well as the accounting treatment for the assets to
22 be acquired from Sharyland under the Proposed Transaction.

23 Q. DOES THIS CONCLUDE YOUR DIRECT TESTIMONY?

24 A. Yes, it does.

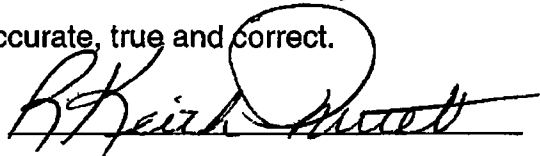
STATE OF TEXAS §

§

COUNTY OF DALLAS §

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

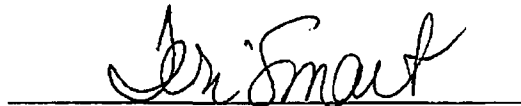
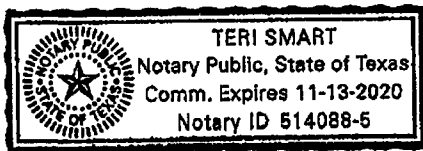
My name is R. Keith Pruett. I am of legal age and a resident of the State of Texas. The foregoing direct testimony and the attached exhibits offered by me are true and correct, and the opinions stated therein are accurate, true and correct.



R. Keith Pruett

SUBSCRIBED AND SWORN TO BEFORE ME by the said R. Keith Pruett, this

3rd day of August, 2017.



Notary Public, State of Texas

Net Electric Plant in Service Received from Sharyland Reflecting Estimated Amounts
Amounts to Be Determined as of the Closing Date

FERC Account	FERC Account Description	Electric Plant in Service	Less Accumulated		Net Electric Plant in Service
			Depreciation Reserve		
303	Miscellaneous Intangible Plant	\$ 5,981,873	\$ 5,837,772	\$	144,102
352	Structures and Improvements	\$ 533,212	\$ 11,789	\$	521,423
353	Station Equipment	\$ 242,698	\$ 16,068	\$	226,631
360	Land and Land Rights	\$ 129,338	\$ -	\$	129,338
361	Structures and Improvements	\$ 365,460	\$ 109,591	\$	255,869
362	Station Equipment	\$ 12,823,257	\$ 1,059,380	\$	11,763,877
364	Poles, Towers, and Fixtures	\$ 153,915,115	\$ 42,258,770	\$	111,656,345
365	Overhead Conductors and Devices	\$ 118,071,632	\$ 36,012,124	\$	82,059,508
366	Underground Conduit	\$ 7,544,206	\$ 1,548,788	\$	5,995,418
367	Underground Conductors and Devices	\$ 21,246,910	\$ 3,891,567	\$	17,355,343
368	Line Transformers	\$ 121,165,947	\$ 21,818,785	\$	99,347,162
369	Services	\$ 46,342,717	\$ 16,612,421	\$	29,730,296
370	Meters	\$ 15,834,960	\$ 3,311,925	\$	12,523,035
371	Installations on Customer Premises	\$ 1,027,565	\$ 675,171	\$	352,394
373	Street Lighting and Signal Systems	\$ 3,234,808	\$ 2,191,296	\$	1,043,512
389	Land and Land Rights	\$ 712,012	\$ 257,916	\$	454,096
390	Structures and Improvements	\$ 6,721,654	\$ 3,162,075	\$	3,559,579
391	Office Furniture and Equipment	\$ 846,560	\$ 547,619	\$	298,941
392	Transportation Equipment	\$ 5,506,309	\$ 2,578,709	\$	2,927,600
394	Tools, Shop and Garage Equipment	\$ 1,355,987	\$ 437,560	\$	918,427
396	Power Operated Equipment	\$ 4,525,085	\$ 1,427,265	\$	3,097,820
397	Communication Equipment	\$ 549,929	\$ 365,789	\$	184,140
398	Miscellaneous Equipment	\$ 94,888	\$ 21,301	\$	73,586
Total		\$ 528,772,122	\$ 144,153,680	\$	384,618,442

Oncor's Entries at Closing of Proposed Transaction Reflecting Estimated Amounts
Amounts to Be Determined as of the Closing Date

FERC Account	FERC Account Description	Debit	Credit
Oncor's transfer of transmission plant to SDTS			
101	Electric plant in service		\$ 432,130,134
108	Accumulated provision for depreciation of electric utility plant	\$ 49,065,881	
102	Electric plant purchased or sold	\$ 383,064,253	
Oncor's elimination of ADFIT attributable to the assets transferred			
411.2	Provision for deferred income taxes—Credit, other income and deductions		\$ 77,601,874
282	ADFIT - other property (Transmission)	\$ 77,601,874	
SDTS's transfer to Oncor			
101	Electric plant in service	\$ 515,458,682	
107	Construction work in progress	\$ 26,415,755	
108	Accumulated provision for depreciation of electric utility plant		\$ 138,484,857
114	Acquisition adjustment		\$ 2,755,973
121	Non-utility plant	\$ 85,346	
102	Electric plant purchased or sold		\$ 400,718,953
Oncor's recording of the ADFIT liability attributable to the assets received			
410.2	Provision for deferred income taxes, other income and deductions	\$ 77,601,874	
282	ADFIT - other property (Distribution)		\$ 77,601,874
Oncor's cash payment to SDTS			
102	Electric plant purchased or sold	\$ 17,654,700	
154	Plant materials and operating supplies	\$ 179,277	
236	Taxes accrued	\$ 3,242,703	
131	Cash		\$ 21,076,680
Oncor's purchase of SU's net plant and CWIP			
101	Electric plant in service	\$ 13,313,440	
107	Construction work in progress	\$ 1,022,788	
108	Accumulated provision for depreciation of electric utility plant		\$ 5,668,824
102	Electric plant purchased or sold		\$ 8,667,404
Oncor's cash payment to SU			
102	Electric plant purchased or sold	\$ 8,667,404	
182	Regulatory assets - Interim Rate	\$ 1,000,000	
182	Regulatory assets - TCRF	\$ 1,397,827	
182	Regulatory assets - EECRF	\$ 232,674	
236	Taxes accrued		\$ 4,810,127
131	Cash		\$ 6,487,778

**INDEX TO THE DIRECT TESTIMONY
OF SALVATORE P. MONTALBANO, WITNESS FOR
JOINT APPLICANTS**

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1 **DIRECT TESTIMONY OF SALVATORE P. MONTALBANO**

2 **I. POSITION AND QUALIFICATIONS**

3 Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

4 A. My name is Salvatore P. Montalbano. My business address is 1100
5 Walnut, Suite 1300, Kansas City, Missouri 64106.

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

7 A. I am a Tax Partner at PricewaterhouseCoopers LLP ("PwC").

8 Q. PLEASE DESCRIBE YOUR CURRENT RESPONSIBILITIES AT PWC.

9 A. I am currently a full-time member of the PwC Power & Utilities practice.
10 Among various duties, my practice has included preparing and signing
11 corporate income tax returns, reviewing and signing off on income tax
12 provisions for financial and regulatory reporting purposes, and advising
13 companies on the regulatory impact of tax positions taken. I have
14 represented various utilities before the Internal Revenue Service ("IRS")
15 regarding certain tax positions at issue with the IRS, and I have been
16 involved in procuring Private Letter Rulings ("PLR"s) from the IRS National
17 Office. In addition, I have prepared rate case testimony on tax-related
18 matters and supported regulatory filings in other jurisdictions. I am a
19 frequent presenter at various utility tax conferences on tax related
20 accounting and regulatory matters sponsored by Edison Electric Institute,
21 National Association of Regulated Utility Commissioners, and the
22 American Gas Association. I have instructed or co-instructed PwC's
23 Annual Utility Accounting for Income Taxes training for the last 12 years.

24 Q. ON WHOSE BEHALF ARE YOU TESTIFYING IN THIS PROCEEDING?

25 A. I am testifying on behalf of Oncor Electric Delivery Company LLC
26 ("Oncor"), Sharyland Utilities, L.P., and Sharyland Distribution &
27 Transmission Services, L.L.C ("SDTS") (collectively, "Joint Applicants").

28 Q. PLEASE DESCRIBE YOUR EDUCATIONAL BACKGROUND.

29 A. I earned a B.S. (Accounting) from Truman State University and a law
30 degree (J.D.) from Washington University in St. Louis School of Law.

1 Q. PLEASE DESCRIBE YOUR PROFESSIONAL BACKGROUND.

2 A. Upon graduation, I joined PwC and became a Partner in 2009. I am a
3 member of the Missouri Bar, and I am also licensed as a Certified Public
4 Accountant in the State of Missouri. Additionally, I am a member of both
5 the American Bar Association Section of Taxation and the American
6 Institute of Certified Public Accountants.

7 Q. HAVE YOU TESTIFIED IN ANY REGULATORY PROCEEDINGS?

8 A. Yes. I have testified regarding tax, tax accounting, and regulatory tax
9 matters before various regulatory bodies, including those in Missouri and
10 Connecticut.

11 **II. PURPOSE OF DIRECT TESTIMONY**

12 Q. WHAT IS THE PURPOSE OF YOUR DIRECT TESTIMONY?

13 A. I will explain the components of income tax expense, particularly the
14 deferred income tax components, and the accounting and ratemaking
15 treatment associated with the proposed exchange of assets between
16 Oncor and SDTS as that transaction is further described in the Joint
17 Report and Application filed with the Public Utility Commission of Texas
18 ("Commission") in this docket (the "Proposed Transaction"). In this
19 respect, I will discuss Oncor and SDTS's PLR request to the IRS in
20 connection with the Proposed Transaction and the accounting,
21 tax/accumulated deferred federal income taxes ("ADFIT"), and ratemaking
22 consequences of the potential outcomes.

23 My direct testimony was prepared by me or under my direction,
24 supervision, or control, and is true and correct.

25 **III. PROPOSED ADFIT-RELATED ADJUSTMENTS**

26 Q. BEFORE DESCRIBING THE ADFIT-RELATED IMPACTS OF THE
27 PROPOSED TRANSACTION AND JOINT APPLICANTS' PROPOSED
28 ADJUSTMENTS TO ADDRESS THE SAME, PLEASE SUMMARIZE
29 ADFIT FOR PURPOSES OF UTILITY RATEMAKING.

30 A. There are several income tax components:

- 31
 - Current Income Tax Expense (P/L impact);

- Currently Payable Income Taxes (Balance Sheet impact);
- Deferred Income Tax Expense (P/L impact); and
- Accumulated Deferred Income Taxes (Balance Sheet impact).

In any given year, differences arise between the book/regulatory accounting for transactions and the treatment of such transactions for purposes of determining the level of income taxes that are due to the federal government. These differences arise because the book/regulatory treatment is governed by generally accepted accounting principles ("GAAP"), while the income tax treatment is governed by the Internal Revenue Code ("IRC"). For example, depreciation expense under GAAP is determined on a straight-line basis while accelerated methods of depreciation can be used for determining tax depreciation under the IRC. Because over time, the amount of book and tax depreciation should equal the original cost of the asset being depreciated, timing or temporary differences arise and reverse and the tax consequences of these originating and reversing differences need to be accounted for in the Company's books and records. Another example of a book/tax difference pertains to the timing of recording various liabilities. For book purposes, under accrual accounting, liabilities are recognized by debiting expense accounts when an event has occurred that is probable and estimable. For income tax purposes, in order to deduct that event on the tax return, the transaction has to meet requirements known as the "all events" test and economic performance test—often occurring at a later date than when that transaction is recorded on the books.

In determining income taxes currently payable and current income tax expense, the income tax treatment (amounts from the income tax return) is used. But there is another component, deferred income tax expense, that must be considered to reflect that any reduction in determining current tax expense (for example, claiming the excess of accelerated over straight-line depreciation) on the income tax return for the current period will generally result in an increase in income taxes in

1 the future when straight-line depreciation exceeds tax depreciation. Thus,
2 to the extent that an accelerated method of depreciation is used to
3 determine the current tax expense in one period, that reduction will give
4 rise to an increase in future taxes (because, over time, tax depreciation
5 and book depreciation will equal). The cumulative book/tax difference
6 times the statutory income tax rate is recorded as Accumulated Deferred
7 Income Taxes, or “ADFIT” when referring only to federal income taxes.

8 From a regulatory perspective, income tax expense in a given year
9 is the result of that year’s economic activity. In determining the revenue
10 requirement, regulatory commissions consider the recovery of all
11 appropriate costs of providing service, including the associated income tax
12 effects of the costs.

13 During the ratemaking process, the regulator considers all items of
14 revenues and expenses and makes a finding as to whether the individual
15 revenues and expenses should be allowable in the determination of
16 revenue requirements. Once the regulator determines the allowable
17 costs, excluding income taxes, the income tax consequences, both current
18 and deferred can be calculated. This is because income taxes have no
19 independent existence of their own. They result from an independent
20 determination of revenues and expenses. The revenues and expenses
21 are generally determined on an accrual basis and the tax consequences
22 of revenues and expenses must be determined on that same accrual
23 basis (current and deferred income taxes).

24 Accelerated depreciation (the major component of deferred taxes)
25 of assets was meant to lower the cost of financing assets by providing an
26 interest free loan from the U.S. Treasury. As a result, in accordance with
27 income tax normalization rules described below, the ADFIT balance
28 attributable to accelerated depreciation is used to reduce rate base,
29 recognizing that a portion of the assets included in rate base has been
30 financed interest free in the form of ADFIT.

1 Both the Federal Energy Regulatory Commission ("FERC") and the
2 Commission have concluded that deferred income tax accounting is
3 appropriate for accounting and ratemaking purposes. The FERC Uniform
4 System of Accounts ("USOA") contains the necessary accounts to
5 accommodate deferred income tax accounting and FERC requires
6 deferred income tax accounting for book/tax temporary differences.

7 Q. HOW WILL CLOSING OF THE PROPOSED TRANSACTION IMPACT
8 JOINT APPLICANTS' ADFIT BALANCES?

9 A. Most, if not substantially all, of this asset exchange is expected to be
10 treated as an exchange of properties that are of "like kind" within the
11 meaning of IRC §1031 and, thus, qualify for tax deferred treatment under
12 that provision (hereafter the "LKE"). SDTS and Oncor will each take a tax
13 basis in the like kind property it receives in the exchange equal to the tax
14 basis in the like kind property it transferred. Oncor will remove the
15 balances of property, plant and equipment, accumulated depreciation and
16 ADFIT related to the assets Oncor is transferring to SDTS. Oncor will
17 then record the balances of property, plant and equipment, and
18 accumulated depreciation on the assets Oncor is receiving from SDTS, as
19 well as recording ADFIT on the difference between those balances and
20 their tax basis. SDTS will make similar entries regarding the assets SDTS
21 is transferring to Oncor and SDTS is receiving from Oncor.

22 It should be noted that both Oncor and SDTS's ADFIT balances
23 that existed prior to the exchange related primarily to accelerated
24 depreciation, but there were other book/tax temporary differences on
25 which ADFIT had been recorded as well. This distinction is important
26 because ADFIT related to accelerated depreciation are subject to the
27 normalization provisions of the IRC, while ADFIT related to other
28 temporary differences are not.

29 Q. CAN YOU BRIEFLY DESCRIBE THE NORMALIZATION PROVISIONS
30 OF THE IRC?

- 1 A. Yes. The IRC contains requirements that are applicable to public utility
2 property. These requirements, in effect, mandate that in order for a public
3 utility to be eligible to claim accelerated depreciation for income tax
4 purposes, the regulator must permit recovery of deferred income taxes on
5 the difference resulting from using accelerated depreciation for income tax
6 purposes and straight-line depreciation for book purposes. The resulting
7 ADFIT for this difference reduces rate base (or is treated as zero-cost
8 capital in the capital structure when determining rate of return).
- 9 If deferred income tax expense is not permitted in the revenue
10 requirement determination or if more than the resulting ADFIT is used to
11 reduce rate base, a normalization violation occurs. The penalty for
12 violating the normalization requirements is the loss of the ability to claim
13 accelerated depreciation for income tax purposes on all assets as of the
14 violation date and on subsequent additions. It is a severe penalty.
- 15 Q. HAS THE IRS EVER DEALT WITH THE TREATMENT OF SIMILAR LIKE
16 KIND EXCHANGES AND HOW THE ADFIT SHOULD BE TREATED?
- 17 A. Yes, there were two PLRs issued on a similar transaction. These were
18 PLRs 201532024 and 201532025 (both issued on April 27, 2015, and
19 published on August 7, 2015). In those PLRs, the IRS concluded that the
20 ADFIT on the assets being transferred should be removed from the
21 exchanging parties books with no accelerated depreciation-related ADFIT
22 recorded on the assets being received. The IRS further concluded that a
23 normalization violation would occur if, after the exchange, rate base were
24 to be reduced for such ADFIT. It is important to note that these rulings
25 pertained to the ADFIT related to accelerated depreciation as those are
26 the ADFIT subject to the normalization provisions of the IRC.
- 27 Q. PLEASE DESCRIBE ONCOR'S AND SDTS'S PROPOSED
28 ACCOUNTING ADJUSTMENTS TO ADDRESS THE ADFIT-RELATED
29 IMPACTS OF THE PROPOSED TRANSACTION.
- 30 A. In this transaction, Oncor and SDTS will remove the property, plant and
31 equipment, accumulated depreciation and the accelerated depreciation

1 ADFIT associated with the assets that each is exchanging. By removing
2 the accelerated depreciation ADFIT, Oncor and SDTS comply with the
3 IRS rulings above. The 'credit' recorded to remove such ADFIT will be
4 recorded to a below-the-line non-operating income tax account FERC
5 account 411.2 (Provision for deferred income taxes-credit, other income
6 and deductions).

7 However, because there will be a book/tax temporary difference on
8 the assets Oncor and SDTS are receiving, ADFIT will be required under
9 GAAP and the FERC USOA. Oncor and SDTS will record such ADFIT as
10 an ADFIT 'credit' recognizing that the book basis of the received assets is
11 greater than the carryover tax basis under operation of the LKE tax rules.
12 Oncor and SDTS are proposing that the 'debit' will be recorded to a below
13 the line non-operating income tax account FERC account 410.2 (Provision
14 for deferred income taxes, other income and deductions)—offsetting the
15 below the line credit recorded in connection with removing the exchanged
16 assets. Oncor's and SDTS's position is that the new ADFIT they are
17 recording on the basis difference related to the received assets relates to
18 the temporary difference resulting from the exchange of assets, not to
19 accelerated depreciation, and therefore should not be subject to the
20 normalization rules and, accordingly, such ADFIT can reduce rate base.

21 In effect, the accounting for the ADFIT removes the "existing
22 ADFIT" related to accelerated depreciation replacing it with "new ADFIT"
23 related to the temporary difference related to the LKE exchange. The
24 other side of the removing/replacing entries offset each other below the
25 line.

26 In this manner, after the exchange, Oncor and SDTS will have
27 property, plant and equipment, accumulated depreciation, and ADFIT
28 approximately equal to the balances that existed prior to the exchange.
29 Importantly, while the ADFIT balance is about the same as before, the
30 character of the temporary difference has changed, providing the
31 Commission the discretion surrounding regulatory treatment.

1 Q. WHY ARE JOINT APPLICANTS PROPOSING THESE ACCOUNTING
2 ADJUSTMENTS?

3 A. As explained, this treatment is proposed primarily to comply with the prior
4 IRS rulings on ADFIT in LKE exchange transactions, while permitting
5 Oncor and SDTS to retain a rate base after the exchange approximately
6 equal to the rate base before the exchange.

7 Q. IS COMMISSION APPROVAL OF ONCOR AND SDTS'S PROPOSED
8 ACCOUNTING ADJUSTMENTS REASONABLE AND IN THE PUBLIC
9 INTEREST?

10 A. Yes.

11 **IV. PLR REQUEST AND RELATED REGULATORY ASSETS**

12 Q. PLEASE DESCRIBE THE PLR BEING SOUGHT BY ONCOR AND SDTS.

13 A. Oncor and SDTS have requested an IRS PLR to ensure that the proposed
14 accounting for the accelerated depreciation-related ADFIT in this
15 exchange will not violate the normalization rules. As I explained above,
16 there are two existing PLRs suggesting that the ADFIT amounts must be
17 re-set to zero, which has been accomplished in the Proposed Transaction.
18 The issue is whether the "new ADFIT" on the exchanged asset basis
19 difference could be considered a violation of the normalization rules.

20 Q. WHAT IS A NORMALIZATION VIOLATION?

21 A. As described above, the IRC contains rules with respect to public utility
22 property that must be followed in order for the utility to take advantage of
23 the accelerated depreciation provisions of the IRC. These rules pertain to
24 the level of income tax expense that must be included in determining
25 revenue requirements and the level of accelerated depreciation-related
26 ADFIT that must be used to reduce rate base. The IRS normalization
27 rules relate to the book/tax temporary difference caused by using straight-
28 line depreciation for books/ratemaking purposes and accelerated
29 depreciation for income tax purposes. Other book/tax temporary
30 differences are not addressed by the IRC.

1 If it is determined that the normalization rules are not being
2 complied with, a normalization violation occurs. The penalty for such a
3 violation is the inability to claim accelerated depreciation for income tax
4 purposes in the future. Thus, the significant ADFIT interest free loan
5 balance that reduces rate base will no longer be applicable and additional
6 debt and equity financing upon which the utilities will earn a return (with a
7 cost) will be required.

8 Q. PLEASE DESCRIBE THE PLR-RELATED REGULATORY ASSETS
9 BEING SOUGHT BY JOINT APPLICANTS.

10 A. If the IRS does not favorably rule that rate base can be reduced by the
11 ADFIT on property received in the LKE, Joint Applicants are requesting
12 the Commission allow an adjustment to their respective ADFIT balances
13 and approve the recording of an income tax related regulatory asset. A
14 regulatory asset can only be recorded if such asset is 'probable of future
15 recovery' in the ratemaking process under Accounting Standards
16 Codification Section 980. This regulatory asset will allow Joint Applicants
17 to recover the revenue requirement impact of having ADFIT on the LKE as
18 a rate base reduction at the time the LKE transaction becomes effective in
19 rates up to the time of SDTS and Oncor's next respective rate filings in the
20 event of and immediately after the IRS issues an unfavorable PLR or fails
21 to issue a favorable PLR. Commission approval of this request will
22 support the 'probable of future recovery' requirement needed to record this
23 regulatory asset.

24 The regulatory asset would be designed to eliminate the regulatory
25 impact of the ADFIT related to the LKE transaction should the IRS fail to
26 rule that the ADFIT related to the LKE transaction could be included as a
27 rate base offset without violating the normalization rules.

28 Q. IS COMMISSION APPROVAL OF ONCOR AND SDTS'S PLR-RELATED
29 REGULATORY ASSETS REASONABLE AND IN THE PUBLIC
30 INTEREST?

1 A. Yes, it is. The penalty for a violation of the income tax normalization rules
2 results in the loss of the ability to claim accelerated depreciation for tax
3 purposes. By not being permitted to claim accelerated depreciation, the
4 resulting accelerated depreciation ADFIT (interest-free loan) will not be
5 applicable to Oncor or SDTS and, all other things being equal, rate base
6 will increase, not only on the exchanged assets, but on all public utility
7 property. To avoid such a violation and to comply with the normalization
8 rules, the appropriate ratemaking response is to permit the recording of a
9 regulatory asset and allow ADFIT to be adjusted to reflect the results of
10 the PLR process.

11 As I have stated, this potential regulatory asset treatment is
12 necessary if the IRS does not approve SDTS and Oncor's PLR request.

13 **V. CONCLUSION**

14 Q. DOES THIS CONCLUDE YOUR DIRECT TESTIMONY?

15 A. Yes it does.

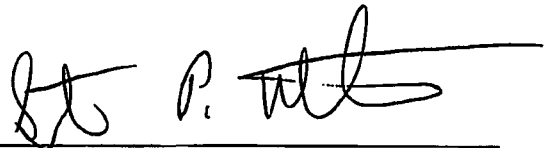
STATE OF MISSOURI

COUNTY OF CLAY

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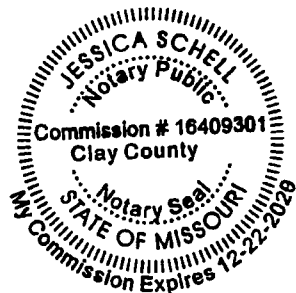
BEFORE ME, the undersigned authority, on this day personally appeared Salvatore P. Montalbano, who, having been placed under oath by me, did depose as follows:

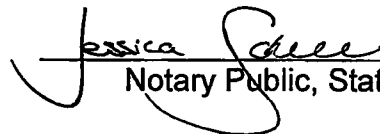
My name is Salvatore P. Montalbano. I am of legal age and a resident of the State of Missouri. The foregoing direct testimony offered by me are true and correct, and the opinions stated therein are, to the best of my knowledge and belief, accurate, true and correct.



Salvatore P. Montalbano

SUBSCRIBED AND SWORN TO BEFORE ME by the said Salvatore P. Montalbano, this 2 day of August, 2017.





Notary Public, State of Missouri