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JOINT REPORT AND APPLICATION §  
OF ONCOR ELECTRIC DELIVERY §  
COMPANY LLC, SHARYLAND §  
DISTRIBUTION & TRANSMISSION §  
SERVICES, L.L.C., SHARYLAND §  
UTILITIES, L.P., AND SEMPRA §  
ENERGY FOR REGULATORY §  
APPROVALS UNDER PURA §§ 14.101, §  
37.154, 39.262, AND 39.915 §

BEFORE THE  
PUBLIC UTILITY COMMISSION  
OF TEXAS

**ONCOR ELECTRIC DELIVERY COMPANY LLC'S RESPONSE TO  
COMMISSION STAFF'S RECOMMENDATION ON RATE ISSUES**

TO THE HONORABLE PUBLIC UTILITY COMMISSION OF TEXAS:

Oncor Electric Delivery Company LLC ("Oncor") submits this response to Commission Staff's Response to Joint Applicant's Supplemental Testimony and Staff's Recommendation on Rate Issues filed February 13, 2019 ("Recommendation on Rate Issues"). In support of this response, Oncor respectfully shows as follows:

**I.  
INTRODUCTION**

Commission Staff's recommendation that the North Texas Utility and South Texas Utility<sup>1</sup> be required to complete comprehensive base-rate cases before the Proposed Transactions close raises important policy considerations behind PURA's 180-day deadline for the Commission's review of sale, transfer, or merger ("STM") transactions.<sup>2</sup> Thus, we are taking this opportunity to briefly highlight how and why we got here. We also respectfully ask the Commission, in light of those policy considerations, to take a broader view of the proposed split of Sharyland's existing WTS rate. Joint Applicants made this proposal only after careful consideration of the alternatives and reaching agreement that it was the best approach to facilitate the elimination of the regulatory uncertainties of the Sharyland/SDTS REIT structure and ensure that the cost of service and rates are not impacted. Additionally, although this response is intended to provide context for the proposed rate split and a policy framework for the

<sup>1</sup> For brevity and convenience, unless noted otherwise, the shorthand terms used herein are the same as those used and defined in the Joint Report and Application filed in this docket on November 30, 2018.

<sup>2</sup> See PURA §§ 39.262(m) (noting the 180-day deadline may be extended not more than 60 days based on the Commission's determination or other good cause), and 39.915 (b) (same).

Commission's treatment of the issue, Oncor fully supports and joins in the legal arguments advanced in Joint Applicants' reply to Staff's Recommendation on Rate Issues. As outlined therein, the proposed split of Sharyland's WTS rate, with no impacts to customers' rates and no adverse impact on the cost of service, is not a rate change and comprehensive base-rate cases before closing should not be required.

## II. RESPONSE

Oncor appreciates that Staff "can see both sides of the question" of whether Joint Applicants are proposing a rate change in this proceeding.<sup>3</sup> Oncor acknowledges the uniqueness of the Proposed Transactions which, if approved, will eliminate the REIT structure used by SDTS and Sharyland while also ensuring that ratepayers are not adversely impacted. InfraREIT spent several months evaluating various scenarios for accomplishing the de-REIT.<sup>4</sup> Once Oncor entered the picture, the Joint Applicants engaged in months of arms-length negotiations, analyzed the potential regulatory issues in detail, and identified the necessary regulatory conditions for getting the deal done. Splitting Sharyland's tariff, among others conditions, was a regulatory condition identified by the Joint Applicants. After careful consideration of how to make this work, the Joint Applicants determined that separation of Sharyland's existing WTS rate based on net plant investment was a reasonable and appropriate methodology under the circumstances.<sup>5</sup> This solution provided an objective, common-sense division of the current Sharyland rates and required far fewer adjustments and assumptions to be made than any other available option.

The Commission's authority to adopt this finding<sup>6</sup> in this STM case is discussed in Joint Applicants' response, but Oncor asks that as the Commission considers the legal merits of this proposal, it should also consider the unique challenge that this approach helps resolve, that is eliminating the current REIT structure and placing Sharyland and SDTS in a traditional utility

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<sup>3</sup> Staff's Recommendation on Rate Issues at 3.

<sup>4</sup> Direct Testimony of Brant Meleski at 3-4.

<sup>5</sup> See Direct Testimony of Stephen N. Ragland at 9:25 – 11:2, 20:11-26; Direct Testimony of D. Greg Wilks at 19:3 – 20:29; Supplemental Direct Testimony of Stephen N. Ragland at 2-4; Supplemental Direct Testimony of D. Greg Wilks at 3-17.

<sup>6</sup> Joint Applicants have also referred to this as Requested Finding 5. Direct Testimony of Don J. Clevenger, Exhibit DJC-1 (Exhibit D), at 163, para. 5; Exhibit DJC-2, (Exhibit B), at 112, para. 5; Exhibit DJC-3 at 2, and Exhibit DJC-4 at 6.

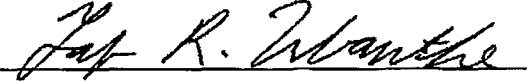
holding company structure. Throughout this process, Joint Applicants' primary objective with this proposed solution, consistent with PURA §§ 39.262(m) and 39.915(b), is to ensure that the cost of service is not adversely affected and that customers' rates are not adversely impacted. Put simply, this proposal is the most straightforward and appropriately allows the total rate to be unchanged from what is being paid today.

As the Commission considers how to address the issues raised by Staff, Oncor would also ask that it consider the negative policy implications of imposing a condition that requires two comprehensive base-rate cases against the backdrop of the 180-day deadline (240-day at most) for the Commission's review of this and other STM transactions. The underlying economic and risk assumptions inherent in the Proposed Transactions were not based on the potential of having to process two separate base-rate cases *before* the Proposed Transactions would be allowed to close. In Oncor's view, this kind of condition impacts the fundamental terms of the Proposed Transactions and would inappropriately circumvent the regulatory certainty that has to-date been provided by PURA's established timeline for review of an STM transaction such as this one.

### **III. CONCLUSION AND PRAYER**

Oncor respectfully requests that the Commission consider this response and Joint Applicants' response to Staff's Recommendation on Rate Issues and find that no rate change is being proposed in this proceeding and that comprehensive base-rate cases not be required for the North Texas Utility and South Texas Utility before the Proposed Transactions close.

Respectfully submitted,

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**ATTORNEYS FOR ONCOR ELECTRIC DELIVERY COMPANY LLC**

**CERTIFICATE OF SERVICE**

It is hereby certified that a copy of the foregoing was served on all parties of record in this proceeding on this the 21<sup>st</sup> day of February, 2019.

