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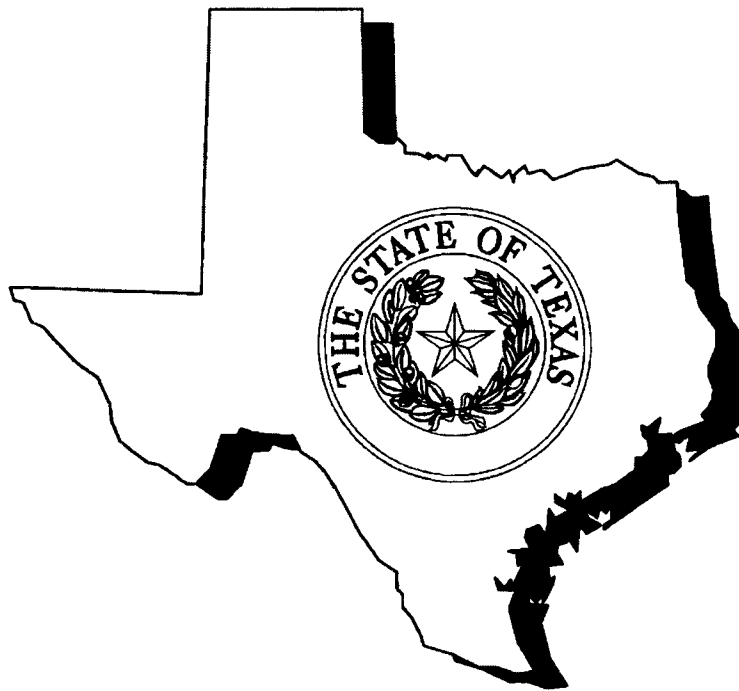
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PUC DOCKET NO. 48929

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JOINT REPORT AND APPLICATION §
OF ONCOR ELECTRIC DELIVERY §
COMPANY L.L.C., 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 §

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BEFORE THE
PUBLIC UTILITY COMMISSION
OF TEXAS
CLERK



DIRECT TESTIMONY OF

DARRYL TIETJEN

RATE REGULATION DIVISION
PUBLIC UTILITY COMMISSION OF TEXAS

MARCH 22, 2019

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DIRECT TESTIMONY OF DARRYL TIETJEN

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I. INTRODUCTION

Q. Please state your name and business address.

A. Darryl Tietjen, 1701 N. Congress Avenue, Austin, Texas.

Q. By whom are you employed and in what capacity?

A. I am employed by the Public Utility Commission of Texas (PUC or Commission) as the Director of the Rate Regulation Division.

Q. What are your principal areas of responsibility?

A. In addition to the management of the Rate Regulation Division, I am responsible for recommending fair rates of return on invested capital, evaluating financial integrity requirements, conducting various financial analyses, leading or participating in various rulemaking projects, and preparing testimony concerning various financial matters relevant to public utilities regulated by the Commission.

Q. Please describe your educational background and professional qualifications.

A. I hold a Master of Business Administration degree with concentrations in finance and accounting from The University of Texas at Austin (UT Austin), and a Bachelor of Business Administration degree with a concentration in finance, also from UT Austin. While earning my master's degree, I was employed by UT Austin as an instructor, teaching two sections of undergraduate corporate finance. Prior to attending graduate school, I was employed by a commercial bank, where I was principally involved in investment activities and internal and external financial reporting.

I am a Certified Public Accountant (CPA) licensed in the state of Texas and a member of the Texas Society of Certified Public Accountants (TSCPA). I have twice served as chairman of the annual TSCPA-sponsored Energy Conference, for which I have been a committee member for approximately 19 years.

1 I also hold the designation of Chartered Financial Analyst (CFA), which is
2 awarded by the CFA Institute after successful completion of its three-part examination
3 process over a minimum three-year period. The curriculum for the CFA charter covers
4 a defined body of knowledge fundamental to the practice of investment management,
5 and includes the areas of finance, accounting, economics, statistics, and ethical and
6 professional conduct.
7

8 **Q. Have you previously testified before this Commission?**

9 A. Yes. Attachment DT-1 provides a summary of the dockets in which I have filed direct
10 or other testimony.
11

12 **Q. What is the purpose of your testimony in this case, Docket No. 48929, *Joint Report***
13 ***and Application of Oncor Electric Delivery Company, L.L.C. (Oncor), Sharyland***
14 ***Distribution & Transmission Services, L.L.C., Sharyland Utilities, L.P. (Sharyland),***
15 ***and Sempra Energy (Sempra) (collectively, Joint Applicants) for Regulatory***
16 ***Approvals under PURA §§ 14.101, 37.154, 39.262, and 39.915?***

17 A. My testimony in this proceeding addresses certain rate-related questions that the
18 Commission included in its *Amended Preliminary Order* issued on March 1, 2019. In
19 particular, I address aspects of questions 66, 68, and 71, which ask:
20

21 66. What rates should be in effect for each of the South Texas Utility
22 and the North Texas Utility if the proposed transactions are
23 approved?
24

25 68. Will the rates paid by Texas retail and wholesale transmission
26 ratepayers after the closing of the proposed transactions be equal to
27 or lower than the rates that would have been paid absent the
28 proposed transactions?
29

30 71. For any currently approved interim updates filed under 16 TAC
31 §25.192(h) to the transmission rates of Sharyland Utilities, who will
32 be responsible for filing a reconciliation of those rates? If any
33 amounts included in the interim updates are found unreasonable in
34 a future proceeding, how, and by whom, will such amounts be
35 refunded?

1
2 Additionally, I discuss certain parts of Oncor's proposal for how it will treat, for
3 purposes of the annual earnings monitoring report (earnings report) that is required by
4 16 Texas Administrative Code (TAC) § 25.73, certain accounting-related effects of the
5 Joint Applicants' proposed transactions (Proposed Transactions). Specifically, I
6 address, *in part*, the Joint Applicants' "Requested Finding 7."¹ My discussion in this
7 regard is responsive to *Amended Preliminary Order* questions 27 and 28, which ask:

8
9 27. Is it reasonable and in the public interest for Oncor to consolidate
10 the North Texas Utility with Oncor for calculation and reporting of
11 its earnings monitor report and for purposes of compliance with
12 finding of fact 56 of the final order in Docket No. 47675?

13
14 28. How should the Commission treat the cash equity contributions
15 invested by Oncor's owners to finance the acquisition for Oncor's
16 earnings report?

17
18 **II. SUMMARY OF RECOMMENDATIONS**

19 **Q. Please summarize your recommendations and conclusions in this docket.**

20
21 **A. In response to questions 66 and 68 of the Commission's *Amended Preliminary Order*:**

22 **My primary recommendation** is that the Commission require the filing by Oncor and
23 Sharyland of simultaneous interim transmission cost of service (TCOS) rate
24 proceedings to establish revised wholesale transmission service (WTS) rates for each
25 entity. Oncor's filing would reflect the inclusion of the "North Texas Utility" (the part
26 of Sharyland that Oncor would be acquiring under the terms of the Proposed
27 Transactions), and Sharyland's filing would reflect the assets of the "South Texas
28 Utility" (the part of Sharyland that Oncor would not be acquiring). Most important to
29 this recommendation is a Commission requirement that the updated WTS rate resulting
30 from Oncor's interim TCOS rate proceeding reflect the application of Oncor's—not
31 Sharyland's—currently authorized rate of return to the transferred North Texas Utility
32 assets.
33

¹ Exhibits DJC-3 and DJC-4, included in the direct testimony of Joint Applicants witness Don J. Clevenger, contain listings of the Joint Applicants' "Requested Findings" in this proceeding. Requested Finding 7 seeks "A finding that Oncor may consolidate North Texas Utility with Oncor for calculation and reporting of its Earnings Monitor Report and for purposes of compliance with the final Order in Docket No. 47675 (Finding of Fact No. 56)."

1 **In the alternative**, I recommend that the Commission order, under the provisions of
2 Public Utility Regulatory Act (PURA) § 36.155,² the implementation of temporary
3 rates, effective as of the date of the Proposed Transactions' closing, for the North Texas
4 Utility and the South Texas Utility.

5
6 I believe that either of these recommendations would be preferable to the Joint
7 Applicants' proposal to keep Sharyland's existing WTS rate unchanged under a
8 "bifurcation" approach in which that rate would be split proportionately between the
9 North Texas Utility and the South Texas Utility. If, however, the Commission
10 approves the use of the bifurcation approach, I recommend that the Commission require
11 the use of Oncor's Commission-authorized rate of return in any interim TCOS
12 proceedings filed by Oncor that in any way involve the assets of the North Texas
13 Utility.

14
15 In response to question 71 of the *Amended Preliminary Order*:

16 The entity responsible for filing a reconciliation of rates will be the entity that owns the
17 assets after consummation of the Proposed Transactions. Similarly, in the event that
18 the Commission finds that any amounts previously included in interim TCOS updates
19 are unreasonable, the entity that owns the assets after consummation of the Proposed
20 Transactions will be responsible for refunding any such amounts in the manner
21 prescribed by the Commission. In responses to discovery requests, both Oncor and
22 Sharyland have acknowledged these points.

23
24 In response to questions 27 and 28 of the *Amended Preliminary Order*:

25 For purposes of the *traditional earnings-report calculation of Oncor's regulated*
26 *earned rate of return*, I recommend that the Commission find appropriate the proposal
27 by Oncor to *exclude* the amount of goodwill related to the Proposed Transactions.
28 Additionally, I find reasonable the request by Oncor to consolidate the North Texas
29 Utility with Oncor for the "calculation and reporting" (excluding the goodwill amount)
30 of its earnings report, as requested in the first part of Requested Finding 7.³

31 I discuss all these recommendation in further detail below.
32
33
34
35

² PURA § 36.155 states that "At any time after an initial complaint is filed under Section 36.151, the regulatory authority may issue an interim order establishing temporary rates for the electric utility to be in effect until a final determination is made."

³ Please see the testimony of Staff witness John Antonuk regarding the other requests included in the Joint Applicants' Requested Findings 7 and 8, which seek Commission approval to include the goodwill amount in Oncor's equity capital for purposes of complying with Finding of Fact 56 of the Commission's order in Docket No. 47675.

III. DISCUSSION OF RATE-RELATED ALTERNATIVES

Q. Please describe the Joint Applicants' proposal for the rates that would be in effect for the North Texas Utility and the South Texas Utility if the Commission approves the Proposed Transactions.

A. As described on pages 19 and 20 of the direct testimony of Sharyland witness D. Greg Wilks, the Joint Applicants' basic rate-related proposal is to keep Sharyland's existing WTS rate unchanged, but to "bifurcate" it between the North Texas Utility and the South Texas Utility. That is, Sharyland's tariffed WTS rate currently in effect, in its entirety, would remain the same; however, the North Texas Utility would charge approximately 86% of that currently approved rate for approximately 86% of the existing Sharyland net plant that would become part of Oncor, and the South Utility would charge approximately 14% of that rate for the remaining approximately 14% of the existing Sharyland net plant that would remain with Sharyland. With regard to this bifurcation approach, Sharyland witness Wilks states in his supplemental direct testimony that:

Simply bifurcating this existing rate that has already been determined to be just and reasonable to reflect the assets to be owned by each utility after closing of the Proposed Transactions naturally results in two just and reasonable rates.⁴

....

This proposal was developed to ensure that ratepayers would not be harmed as a result of the Proposed Transactions. To be clear, this bifurcation of Sharyland's WTS rate will not result in any change in rates from the perspective of Electric Reliability Council of Texas ("ERCOT") ratepayers.⁵

⁴ Wilks Supplemental at 4:17-20.

⁵ Wilks Supplemental at 3:18-22.

1 **Q. In response to *Amended Preliminary Order* question 66, what alternatives do you**
2 **believe are preferable—or, at a minimum, reasonable for the Commission to**
3 **consider—for determining the rates that should be in effect for the North Texas**
4 **Utility and the South Texas Utility?**

5 A. I believe that at least three alternatives may be reasonable for the Commission to
6 consider for purposes of appropriately reflecting in rates the effects of the asset-
7 transfers proposed in this proceeding. These three alternative are:

- 8
- 9 1. the filing of simultaneous interim TCOS cases by Oncor and Sharyland;
- 10 2. the implementation of temporary rates under PURA § 36.155; and
- 11 3. the recording of relevant regulatory assets and liabilities.
- 12

13 Although each of these alternatives has strengths and weaknesses, I believe that the
14 filing of interim TCOS proceedings is the preferred approach of the three, with
15 temporary rates my secondary recommendation. As a general matter—although there
16 may be exceptions—I do not favor the alternative of recording regulatory assets and
17 liabilities. Below, I discuss all these points in additional detail.

18

19 **Q. Please describe the alternative in which Oncor and Sharyland would file interim**
20 **TCOS proceedings.**

21 A. In this approach, as soon as is practicable after the closing of the Proposed
22 Transactions, Oncor and Sharyland would file interim TCOS cases simultaneously to
23 reflect their respective changes in transmission investment resulting from the proposed
24 transfers of assets. Oncor's interim TCOS case would reflect the proposed transfer to
25 Oncor of the North Texas Utility assets, while Sharyland's interim TCOS case would
26 reflect the proposed transfer to Sharyland of the South Texas Utility assets.

1 **Q. In your opinion, what is the most important Commission consideration in this**
2 **proceeding with regard to the use of the interim TCOS alternative?**

3 A. In interim TCOS updates, the cost-of-service metric that is perhaps of greatest
4 significance is the company's Commission-authorized rate of return. As discussed in
5 more detail below, Oncor's current authorized ROR is lower than Sharyland's—and
6 this point underlies the most important aspect of my recommendation for the use of the
7 interim TCOS approach: Oncor's filing of such an update proceeding would include
8 the assets of the North Texas Utility, and those transferred assets would—or, at least in
9 my opinion, *should*—therefore have applied to them Oncor's *lower* rate of return. This
10 is a key point, and one can reasonably assume that Sharyland's *higher* authorized rate
11 of return is a major underpinning of the Joint Applicants' proposal (described
12 immediately below) to use Sharyland's—rather than Oncor's—existing cost-of-service
13 metrics for any interim TCOS proceedings that involve the transferred assets of the
14 North Texas Utility and that occur prior to Oncor's next comprehensive rate
15 proceeding.
16

17 **Q. What is the Joint Applicants' proposed treatment for future interim TCOS**
18 **updates prior to Oncor's next comprehensive rate proceeding?**

19 A. Oncor witness Stephen N. Ragland in his direct testimony addresses this issue on page
20 10, lines 16 through 26, where he states:

21
22 Before consolidating the North Texas Utility with Oncor as part of Oncor's
23 next base-rate case (which is another Regulatory Finding discussed below),
24 any future interim updates for the North Texas Utility will be filed
25 consistent with the baseline for the North Texas Utility as proposed in the
26 allocation of the WTS rate shown in Exhibit DGW-7 to the direct testimony
27 of Mr. Wilks. Future interim transmission cost of service update
28 proceedings for the North Texas Utility will reflect this proposed baseline
29 including consistent cost-of-service recoveries (depreciation, taxes other
30 than income taxes, and federal income tax) and return on rate base as
31 embedded in the cost of service and return included in the allocation of the
32 WTS rate.
33

1 Oncor's response (Attachment DT-2 to my testimony) to Staff's Request for
2 Information (RFI) 3-2 contains the same basic points quoted above, and expands the
3 discussion of the proposal as follows:

4
5 Following the close of the Proposed Transactions, the North Texas Utility
6 and South Texas Utility will file interim updates of Wholesale Transmission
7 Service (WTS) rates on a basis separate and apart from each other based on
8 their respective invested capital amounts. As discussed on page 10, lines
9 16 through 26, of Mr. Ragland's direct testimony in this proceeding, before
10 the North Texas Utility is combined with Oncor for purposes of Oncor's
11 next base-rate case, any future interim updates for the North Texas Utility
12 will be filed consistent with the baseline for the North Texas Utility as
13 proposed in the allocation of the WTS rate shown in Exhibit DGW-6 to the
14 direct testimony of Mr. Wilks. Future interim transmission cost of service
15 update proceedings for the North Texas Utility will reflect this proposed
16 baseline, including consistent cost-of-service recoveries (depreciation,
17 taxes other than income taxes, and federal income tax) and return on rate
18 base as embedded in the cost of service and return included in the allocation
19 of the WTS. As presented in Oncor's response to TIEC RFI Set No. 2
20 (Oncor), Question No. 2-20, Sharyland's currently authorized Weighted
21 Average Cost of Capital (WACC) is 8.06% based upon a 6.73% Cost of
22 Debt, an authorized Return on Equity (ROE) of 9.7%, and an authorized
23 regulatory capital structure of 55% long-term debt and 45% equity.
24

25 **Q. Please explain the significance of the proposed Oncor approach as described**
26 **above.**

27 **A.** The use of Sharyland's higher authorized rate of return on the transferred assets of the
28 North Texas Utility would be a means by which Oncor could, for a meaningful period
29 of time after the closing of the Proposed Transactions, continue to extract additional
30 return dollars. In contrast, my recommendation would apply Oncor's lower
31 Commission-authorized rate of return to the transferred assets and eliminate what
32 effectively is a risk-free arbitrage of the authorized rate-of-return differences between
33 Oncor and Sharyland.⁶
34

⁶ I would additionally note that my recommendation is consistent with Oncor's request to consolidate the North Texas Utility with Oncor and treat them as one entity for earnings-report purposes (which I discuss in Section IV of my testimony).

1 **Q. Please continue.**

2 A. The use of interim TCOS cases, relative to the use of the Joint Applicants' proposed
 3 bifurcation approach, would result in each of the two utilities experiencing a differential
 4 impact on its revenues. As estimated in the testimony of Staff witness Nancy Palma,
 5 the effect on Oncor's revenues, in comparison to the effects of Joint Applicants'
 6 bifurcation proposal, would be an approximate *decrease* of \$22.7 million in rate
 7 revenues associated with the North Texas Utility's assets, while the effect on
 8 Sharyland's revenues associated with the South Texas Utility would be an *increase* of
 9 \$5.3 million in rate revenues. Thus, the overall (net) effect would be an estimated
 10 decrease of approximately \$17.4 million of rate revenues compared to the bifurcation
 11 proposal. In other words, under the bifurcation approach, ratepayers in ERCOT would
 12 be harmed by paying about \$17.4 million more than they would pay under an interim
 13 TCOS alternative. As described in the testimony of Staff witness Ms. Palma, the
 14 derivation of the \$17.4 million figure is based on the differences between Oncor's and
 15 Sharyland's existing rate-related metrics that would be used in the two companies'
 16 interim TCOS proceedings. Specifically, after the application of the provisions of 16
 17 TAC § 25.192 (the Commission rule that provides for the filing of interim TCOS
 18 cases), the reduced net revenues would reflect the differences between the two
 19 companies' depreciation rates, certain tax rates, updated billing determinants, and, most
 20 significantly, their current authorized rates of return and capital structures, with the
 21 differences in the key latter items as shown below:

Company	Dkt #	Order Date	Authorized Return on Equity	Capital Structure (Debt/Equity)	Cost of Debt	Overall Rate of Return
Sharyland	41474	1/23/14	9.70%	55% / 45%	6.73%	8.067%
Oncor	46957	10/13/17	9.80%	57.50% / 42.50%	5.70%	7.44%

24 Another argument for the arbitrage-elimination effects resulting from the use of
 25 interim TCOS proceedings that (in the context of this docket) I view as very persuasive

1 is that it would provide an appropriate and logical symmetry vis-à-vis the previous
2 transfer of assets that the Commission approved in October 2017 for Oncor and
3 Sharyland in Docket No. 47469.⁷ In that proceeding, Sharyland transferred essentially
4 all its distribution assets to Oncor, while Oncor transferred a roughly equal amount of
5 transmission assets to Sharyland, with the latter transfer effectuated via the same basic
6 procedures used in interim TCOS proceedings.⁸ Similarly, in the instant proceeding,
7 the use of an interim TCOS type of filing would be a straightforward means to achieve
8 a simple reversal of the process used in Docket No. 47469, thus minimizing the
9 possibility of inconsistent rate effects that might occur if some other approach were
10 used.

11 Consider, for example, the following: if the Joint Applicants' bifurcation
12 proposal were used instead of an interim TCOS approach, the resulting rate would
13 reflect a sort of "ratcheting up" of transmission-related costs when viewed in light of
14 the previous transfer of transmission assets from Oncor to Sharyland. This would occur
15 because when the transmission assets were previously transferred from Oncor to
16 Sharyland and reflected in rates via what was effectively an interim TCOS approach,
17 Sharyland's higher rate of return was applied to those assets, resulting in higher
18 transmission charges for ratepayers than would have been the case had the transmission
19 assets remained in Oncor's rates.

20 In this proceeding, which is effectively the reverse situation (given that
21 transmission assets are being transferred from Sharyland to Oncor), the Joint
22 Applicants are not proposing a symmetrical approach wherein Oncor's lower

⁷ *Joint Report and Application of Sharyland Utilities, L.P., Sharyland Distribution & Transmission Services, L.L.C., and Oncor Electric Delivery Company L.L.C. for Transfer of Facilities, Transfer of Rights Under and Amendment of Certificates of Convenience and Necessity, and for Other Regulatory Approvals*, Docket No. 47469 (Order, October 13, 2017).

⁸ The Commission's order in Docket No. 47469 addresses this point in Finding of Fact 42(d), which states, "A revision to Sharyland Utilities' wholesale-transmission-service rate in this proceeding to reflect the addition to rate base of the transmission assets transferred from Oncor should be approved. This revision will not count against Sharyland Utilities' annual allowable interim-transmission-cost-of-service (TCOS) updates under 16 TAC § 25.192(h)(1)...."

1 authorized rate of return would be applied to the assets transferred back to Oncor;
2 rather, the Joint Applicants are proposing an approach that retains for the assets the
3 higher rates based on Sharyland's higher authorized rate of return. Essentially, the
4 Joint Applicants' bifurcation proposal—and as well, the proposal to use Sharyland's
5 currently authorized financial metrics for interim TCOS proceedings prior to the North
6 Texas Utility's consolidation with Oncor in Oncor's next comprehensive rate case—is
7 inconsistent with the previous methodology used to adjust rates as a result of the
8 transfer of transmission assets. As a matter of fundamental cost recovery, this
9 inconsistency harms ratepayers because it reflects selective pickings of rate
10 methodologies (the interim TCOS approach in Docket No. 47469 and the bifurcation
11 approach as proposed in this proceeding) that result in higher rates.

12 Another point that I believe is worthy of consideration is the fact that an interim
13 TCOS approach requires less of a departure from standard ratemaking practices than
14 any of the other proposals the Commission may consider. Under an interim TCOS
15 alternative, the only potential departures from standard practice might be a requirement
16 that the interim TCOS applications by Oncor and Sharyland occur simultaneously, that
17 the rates would be effective as soon as possible after the asset transfers, and that each
18 entity's rate adjustment would not count against the two annual interim TCOS
19 applications that 16 TAC § 25.192 currently allows.⁹

20 Administrative efficiency is another positive aspect of interim TCOS
21 proceedings. Such cases are typically done within 60 days, and, although prudence
22 reviews of assets included in interim TCOS proceedings are deferred until a subsequent
23 comprehensive rate case, the specific cost items subject to prudence-disallowance
24 reconciliations are limited in comparison to the full cost-of-service reconciliation that

⁹ If the Commission adopts my recommendation for Oncor and Sharyland to file interim TCOS proceedings as soon as is practicable after the closing of the Proposed Transactions, the Commission could, as a matter of expedience, use the Joint Applicants' proposed bifurcation approach for the short period (presumably about 60 days) between the time of closing and the implementation of the rates resulting from the interim TCOS proceedings.

1 would occur in a proceeding in which temporary rates are trued-up. For example, a
2 complete reconciliation of temporary rates would include complex items such as
3 accumulated deferred income taxes (ADFIT), possible issues related to potential
4 normalization violations, adjustments related to operations and maintenance (O&M)
5 expense, and the appropriate treatment of carrying charges.

6 One fundamental aspect of the interim TCOS alternative that could be viewed
7 negatively in the present context is the fact that interim TCOS proceedings do not
8 update *all* components of a utility's cost of service. The cost-of-service components
9 that are not updated in such cases include items of relatively significant magnitude,
10 such as O&M expense and ADFIT. Rate updates in interim TCOS cases, by design for
11 purposes of administrative efficiency, reflect for these non-updated costs the same
12 amounts the Commission previously approved in the given utility's last comprehensive
13 rate proceeding—and in some instances, a number of years may have passed since a
14 company last received a Commission order in such a proceeding. Sharyland is an
15 example of this, as it received its most recent Commission order for a comprehensive
16 rate case over five years ago (in January 2014) in Docket No. 41474¹⁰ (as previously
17 indicated in the table on page 10). Given the use in interim TCOS proceedings of this
18 rather stale Sharyland expense information, there is virtual certainty that the resulting
19 rates would reflect a substantial degree of deviation from actual cost information—
20 especially given the scale of Sharyland's exceptionally large increase in rate base (over
21 2,500%, the vast majority of which has not yet been reviewed for prudence) since
22 Docket No. 41474. The rate effect of this procedural reality is a reasonable point of
23 Commission consideration when comparing the merits of the interim TCOS alternative
24 to those of the alternative of using temporary rates.

¹⁰ *Application of Sharyland Utilities, L.P. to Establish Retail Delivery Rates, Approve Tariff for Retail Delivery Service, and Adjust Wholesale Transmission Rate*, Docket No. 41474 (Order, January 23, 2014).

1 Given the various advantages of the interim TCOS alternative as described in
2 the preceding paragraphs, I favor its use over the implementation of temporary rates
3 (further discussed below). I would again emphasize here that perhaps the most critical
4 element of this recommendation is that it provides for elimination of the rate-of-return
5 arbitrage that is inherent to the Joint Applicants' proposed bifurcation approach and
6 their proposal to continue to use Sharyland's cost-of-service metrics for any North
7 Texas Utility interim TCOS proceedings prior to the next Oncor comprehensive rate
8 case.
9

10 **Q. With regard to the temporary rates alternative, what in your view are some of the**
11 **key points that the Commission should consider?**

12 **A.** Under this alternative, the Commission could order in this proceeding the future filing
13 of a comprehensive rate proceeding and, under the provisions of PURA § 36.155, enter
14 an interim order establishing temporary rates for each utility. These temporary rates
15 would be subject to true-up in the next rate case for each company.

16 In this approach, the Commission could order the utilities to file comprehensive
17 rate cases at dates certain, with sufficient time to establish a historical test year
18 reflecting operations of the companies post-transaction.¹¹ Subsequently, at the
19 conclusion of those proceedings, the temporary rates would be trued-up, under the
20 provisions of PURA § 36.155, to the Commission-ordered final rates.

21 An advantage of the temporary rates alternative is that, ultimately, the costs that
22 ratepayers would pay for the two companies' costs of service would be more accurate
23 and reflect generally updated information from the point in time at which temporary
24 rates began. The related disadvantage is that a long period of time would pass before
25 the Commission would have the opportunity to set the final rates to which the
26 temporary rates would be trued-up. Assume, for example, a date of June 1, 2019 for

¹¹ As a general matter, I believe there is merit in using a full 12 months of actual test-year data.

1 both the closing date of the Proposed Transactions and the beginning of the
2 Commission-ordered temporary rates. Adding 12 months to that date to allow for the
3 accrual of a full year of test-year information would bring the timeline to June 1, 2020.
4 From that point in time, further assume a period of four additional months (to October
5 1, 2020) for preparation of the rate-filing package, and then six more months (to April
6 1, 2021) for the ensuing rate proceeding. The entire span of this hypothetical period—
7 from June 1, 2019 to April 1, 2021—is 22 months, or nearly two years. Although a
8 true-up of rates for a time period of that length can be done, it would likely be fraught
9 with significant complications (some of which may be known—and some of which
10 may be unknown), many areas of controversy, and significant contentiousness.

11 Another disadvantage of the temporary rates alternative is the possibility of
12 substantial controversy and contentiousness regarding the nature of the reconciliation
13 process. The question could be asked, “What does a true-up of temporary rates entail?”
14 Parties could argue that the appropriate true-up is on a total-revenue basis—or, they
15 could argue that each expense and revenue item must be considered individually, or by
16 rate class. Given the unpredictable nature of such a proceeding, I have some degree of
17 wariness that the cost/benefit ratio would turn out well.

18 Ultimately, with regard to the temporary rates alternative, I believe the extreme
19 delay in the true-up process and the likelihood of significant controversy are both
20 problematically excessive, and for those reasons, and, as well, because of the various
21 advantages of the interim TCOS alternative discussed earlier, I recommend the use of
22 interim TCOS filings as a preferred approach.
23

24 **Q. With regard to the alternative of using regulatory assets and regulatory liabilities,**
25 **what in your view are some of the key points of Commission consideration?**

26 **A.** The basic element of this approach would be the recording by Oncor and Sharyland of
27 regulatory accounts that would track the effects of differences between the Joint

1 Applicants' proposed rates and various components of those companies' costs of
2 service as determined in future proceedings.

3 In my opinion, the use of this alternative—at least from a macro cost-of-service
4 standpoint—could be unduly problematic, for a variety of reasons. First, the
5 Commission would need to identify—upfront—the specific components for which the
6 companies would book regulatory accounts; second, the logistical realities of tracking
7 the identified components would almost certainly be burdensome, complex, and
8 possibly cost-inefficient; and third, the ultimate resolution and the companies' possible
9 recovery of the booked amounts would most probably be contentious and likely result
10 in increased litigation expense. In general, because of these various considerations, I
11 view this alternative as inferior to the interim TCOS and temporary rates alternatives.

12 If, however, the Commission were to specify a limited scope or number of
13 tracked items, this alternative could be feasible. For example, witness Charles S.
14 Griffey, in his testimony on behalf of Texas Industrial Energy Consumers, recommends
15 a tracking mechanism for revenue differences related to rate of return. A small and
16 precisely selected number of tracked items or accounts could result in much more
17 manageable accounting requirements and a lesser potential for controversy.
18

19 **Q. In the event that the Commission approves the Joint Applicants' proposed**
20 **bifurcation approach, do you have any recommendations with regard to interim**
21 **TCOS cases that Oncor may file prior to its next comprehensive rate proceedings?**

22 **A.** Yes. If the Commission approves the use of the bifurcation approach, I recommend
23 that the Commission require the use of Oncor's lower authorized rate of return in any
24 interim TCOS proceedings filed by Oncor that in any way involve the assets of the
25 North Texas Utility. As described earlier in my testimony, implementation of this
26 recommendation would eliminate the continued charging to ratepayers of Sharyland's
27 higher rate of return after the transfer of assets to Oncor has already taken place.
28

1 **Q. As a final point of discussion with regard to the rate-related issues that you are**
2 **addressing in your testimony, what is your recommendation pertaining to**
3 ***Amended Preliminary Order* question 71, which asks about what entity, in future**
4 **comprehensive rate proceedings, should bear the risk of potential prudence**
5 **disallowances of the North Texas Utility assets transferred to Oncor?**

6 A. Oncor should bear the risk. In its response to Staff's RFI 1-01 (included in my
7 testimony as Attachment DT-3), Oncor acknowledged this point, stating that:

8
9 Oncor will be responsible for filing a reconciliation of the transmission rates
10 relevant to the transmission assets, previously owned by SDTS, which will
11 constitute the North Texas Utility transmission provider under the Proposed
12 Transaction.
13

14 Any amounts found unreasonable, related to the assets described above, will
15 be refunded by Oncor through an applicable Transmission Cost of Service
16 ("TCOS") tariff adjustment.

17 Sharyland's response (included in my testimony as Attached DT-4) to this same RFI
18 echoed that of Oncor. Sharyland stated in its response that:

19
20 The entity responsible for filing a reconciliation of rates under 16 TAC §
21 25.192(h)(2) will be the entity that owns the assets after consummation of
22 the Proposed Transactions. Similarly, in the event that any amounts
23 previously included in Sharyland's interim updates are found unreasonable,
24 the entity that owns the assets after consummation of the Proposed
25 Transactions will be responsible for refunding any such amounts in the
26 manner prescribed by the Commission.

27 I agree with Oncor's and Sharyland's position on this issue and recommend that the
28 Commission deem such treatment appropriate.
29

30 **IV. DISCUSSION OF JOINT APPLICANTS' REQUESTS PERTAINING**
31 **TO ONCOR'S EARNINGS MONITORING REPORT**

32 **Q. Please describe the findings pertaining to Oncor's annual earnings report that the**
33 **Joint Applicants are seeking from the Commission in this proceeding.**

34 A. In his direct testimony, Oncor witness Stephen N. Ragland discusses Requested
35 Findings 7 and 8 that the Joint Applicants seek in this proceeding with regard to

1 Oncor's earnings reports.¹² Mr. Ragland discusses these points on pages 12 and 13 of
2 his direct testimony and in Oncor's responses to Cities' RFI 1-6 (included as
3 Attachment DT-5 of my testimony) and Staff's RFIs 4-51 and 4-52 (Attachments DT-
4 6 and DT-7). Mr. Ragland states on page 12, lines 14 through 19 of his direct testimony
5 that:

6
7 ...the Joint Applicants are requesting a Commission finding that Oncor may
8 consolidate the North Texas Utility with Oncor for calculation and reporting
9 of its earnings monitoring and for purposes of Finding of Fact No. 56 of the
10 final Order in Docket No. 47675 that requires Oncor's compliance with the
11 Commission-approved debt-to-equity ratio.
12

13 Mr. Ragland further states in his direct testimony on page 12, line 24 through page 13,
14 line 5, that:

15
16 ...in addition to Requested Finding 7 discussed above, the Joint Applicants
17 are also requesting in Requested Finding 8 that the Commission find that
18 the cash equity contributions invested by Oncor's owners used to directly
19 finance the transactions contemplated by the Oncor Merger Agreement and
20 the Asset Exchange Agreement will be included in the calculations reported
21 in Oncor's earnings monitoring report solely for purposes of determining
22 compliance with Oncor's debt-to-equity ratio requirement as set by the final
23 order in Docket No. 47675. This finding requests confirmation from the
24 Commission that this equity contribution used to fund the purchase of utility
25 plant will be treated consistent with Generally Accepted Accounting
26 Principles ("GAAP"). Under GAAP, the cash equity contribution that
27 Oncor will receive from its parent will be booked as equity at Oncor.
28

29 **Q. What additional information related to these earnings-report-related requests did**
30 **the Applicants provide in the response to Cities' RFI 1-6?**

31 **A. Part (a) of Cities' RFI 1-6 requested the following information:**

32
33 Confirm that the additional equity will be included in the common equity
34 used to calculate the earned rate of return in Oncor's Earnings Monitoring
35 Report and not "solely for determining compliance with Oncor's debt-to-
36 equity ratio." If denied, then describe how Oncor will remove the additional
37 equity from the common equity used to calculate the earned rate of return
38 in Oncor's Earnings Monitoring Report.

¹² As indicated in footnote 1, Oncor witness Don. J. Clevenger includes Requested Findings 7 and 8 in his direct testimony as part of Exhibits DJC-3 and DJC-4, and he also briefly discusses these issues on page 18 of his testimony.

Oncor's response was as follows:

Deny. Oncor would propose that it provide two Schedules V, Weighted Average Cost of Capital, in its annual Earnings Report. Each would be a separate and distinct representative calculation for a separate and distinct purpose. In other words, the result of each calculation would serve the purpose of providing pertinent information, either regulatory or financing, to the user of that information. The first Schedule V is to be used for the traditional calculation of Oncor's regulated earned rate of return for the reporting year and will exclude the goodwill portion of the equity investment made by Oncor's owners for purposes of this transaction. The second Schedule V will include the goodwill portion related to this transaction to reflect Oncor's capital structure in accordance with Generally Accepted Accounting Principles, solely for determining compliance with Oncor's debt-to-equity ratio. This second calculation is appropriate in that it allows Oncor to accurately reflect the pertinent value of the assets on its balance sheet, and therefore, Oncor's relevant financial condition when financing new long-term debt.

Q. What aspects of Oncor's earnings-report requests are you addressing?

A. I am addressing the treatment proposed by Oncor in a portion of its above-quoted response to Cities' RFI 1-6—specifically, the response that “the traditional calculation of Oncor's regulated earned rate of return for the reporting year...will exclude the goodwill portion of the equity investment made by Oncor's owners for purposes of this transaction.”

I am also addressing a portion of Requested Finding 7, which seeks “A finding that Oncor may consolidate North Texas Utility with Oncor for calculation and reporting of its Earnings Monitor Report and for purposes of compliance with the final Order in Docket No. 47675 (Finding of Fact No. 56).” I am addressing only the first part of Requested Finding 7—the part that seeks Commission approval to consolidate the North Texas Utility with Oncor for the “calculation and reporting of its Earnings Monitoring Report....”

1 **Q. What is your recommendation with regard to Oncor's proposed treatment of**
2 **goodwill for purposes of the traditional calculation of Oncor's regulated**
3 **earned rate of return, as described in Oncor's response to Cities' RFI 1-6?**

4 A. With regard to Oncor's proposal to *exclude* goodwill from the calculation of the
5 earnings-report rate of return, I believe such treatment is reasonable. If Oncor, in
6 the presentation of its earnings-report balance of common equity, were to include
7 the amount of goodwill resulting from the transaction in the calculation of the
8 reported rate of return, the effect would be to *lower* the reported rate of return. In
9 other words, including the amount of goodwill in the rate-of-return calculation
10 would have the effect of diluting the reported rate of return because the calculation
11 would include a larger equity base; thus, a given amount of earnings for the year,
12 when divided by the larger equity base, would produce a lower value for the rate of
13 return that Oncor would report in its annual earnings report. All else equal, this
14 could lead to the impression that Oncor is earning a lower regulated rate of return
15 than it actually is—and it could therefore complicate an assessment of the
16 reasonableness of Oncor's earnings levels. Accordingly, with regard to Oncor's
17 proposal to exclude from its annual earnings report the goodwill portion of the
18 equity investment made by Oncor's owners for this transaction, I believe that such
19 treatment is appropriate and consistent with the fundamental objective of the
20 earnings-report process, which is to provide to the Commission relevant
21 information that accurately represents a utility company's regulated earnings level
22 and financial condition.

1 **Q. What is your view on the portion of Requested Finding 7 that seeks**
2 **Commission approval to consolidate the North Texas Utility with Oncor for**
3 **the “calculation and reporting of its Earnings Monitoring Report....”?**

4 A. I believe that this request is reasonable. If the Proposed Transactions close, the
5 North Texas Utility assets will become part of Oncor; therefore, they should
6 logically be part of Oncor’s earnings report. During the review of those future
7 earnings reports, Staff will assess the level of Oncor’s earnings on a total-company
8 basis, and those earnings will include amounts related to the North Texas Utility.
9 Given that Staff will perform its review of Oncor’s consolidated earnings report in
10 a traditional way and make adjustments as deemed necessary (consistent with
11 Staff’s standard earnings-report review practices), I believe that the consolidation
12 in Oncor’s earnings report of the North Texas Utility’s operations with those of
13 Oncor is appropriate. As discussed above, the purpose of the earnings reports is to
14 provide to the Commission the information necessary for monitoring the earnings
15 and rate-of-return levels of regulated utility companies, and if the Commission
16 approves Oncor’s acquisition of the North Texas Utility, it is reasonable for the
17 earnings report to reflect that consolidation.
18

19 **V. RECAP OF KEY RECOMMENDATIONS**

20 **Q. Please restate your key recommendations in this proceeding.**

21 A. If the Commission approves the Proposed Transactions, I recommend that the
22 Commission order Oncor and Sharyland to update their WTS rates via the filing of
23 interim TCOS proceedings. In the alternative, I recommend that the Commission order,
24 under the provisions of PURA § 36.155, the implementation of temporary rates.

25 With regard to the Joint Applicants’ seeking of certain findings pertaining to
26 Oncor’s earnings-report treatment of goodwill resulting from the Proposed
27 Transactions, I recommend that the Commission approve the exclusion of goodwill

1 from the calculation of the earnings-report rate of return, and that the Oncor earnings
2 report reflect the consolidation with Oncor of the transferred North Texas Utility assets,
3 excluding the related goodwill.
4

5 **Q. Does this conclude your testimony?**

6 **A. Yes.**

**LIST OF TESTIMONIES
BY DARRYL TIETJEN**

<u>P.U.C. Docket</u>	<u>Company</u>	<u>Subject</u>
10060	Brazos River Authority	Rate of Return
10462	Tex-La Electric Cooperative	Interim Rates/ROR
10325	Central Texas Electric Cooperative	Rate of Return
10744	Rayburn Country Electric Cooperative	Sale, Transfer, Merger
10820	Magic Valley Electric Cooperative	Rate of Return
11347	Johnson County Electric Cooperative	Rate of Return
11571	Fayette Electric Cooperative	Rate of Return
11520	Southwestern Public Service Company	Rate of Return
12065	Houston Lighting & Power Company	Decomm. Exp.
12700	El Paso Electric Company	Rate Moderation/ Mirror CWIP
12815	Pedernales Electric Cooperative	Rate of Return
12820	Central Power and Light Company	Decomm. Exp.
12852	Gulf States Utilities Company	Decomm. Expense/ Contra-AFUDC
13827	Southwestern Public Service	Notice of Intent
14965	Central Power and Light Company	ROR/ Decomm. Exp.
15638	Texas Utilities Electric Company	Transmission COS
16585	T&H Communications	SPCOA
16705	Entergy Gulf States	Rate of Return
16705	Entergy Gulf States	ROR on ECOM
18290	Entergy Gulf States	Int. on Tax Remand
18845	Central and South West Companies	Financial Condition of Resource Providers
21527	TXU Electric Company	Securitization
21528	Central Power and Light Company	Securitization
22344	Generic Unbundled Docket	Return on Equity
22355	Reliant Energy	ECOM Estimate
22352	Central Power and Light Company	Cost of Debt
22354	West Texas Utilities Company	Refinancing Costs
22350	TXU Electric Company	ECOM Estimate
26942	Texas-New Mexico Power Company	Reg Asset Treatment
29206	Texas-New Mexico Power Company	Stranded Costs & True-up Issues
29206	Texas-New Mexico Power Company	Int on Stranded Costs
29526	CenterPoint Energy Houston Electric	Stranded Costs & True-up Issues
29526	CenterPoint Energy Houston Electric	Int. on Stranded Costs
30485	CenterPoint Energy Houston Electric	Financing Order

**LIST OF TESTIMONIES
BY DARRYL TIETJEN (cont.)**

30706	CenterPoint Energy Houston Electric	Comp. Transition Charge
31056	AEP Texas Central Company	Stranded Costs & True-up Issues
31994	Texas-New Mexico Power Company	Comp. Transition Charge
32475	AEP Texas Central	Financing Order
32907	Entergy Gulf States, Inc.	Interest on Storm Costs
33106	Texas-New Mexico Power Company	Interest Rate on CTC
33586	Entergy Gulf States, Inc.	Financing Order
32795	\$5 Billion Stranded-Cost Threshold	Interest Amount
34448	CenterPoint Energy Houston Electric	Financing Order
34077	Oncor Electric Delivery and Texas Energy Future Holdings Limited Partnership	Support of Stipulation
35038	Texas-New Mexico Power Company	Tariff Filing
33891	Southwestern Electric Power Co.	CCN Application
36918	CenterPoint Energy Houston Electric	Restoration Costs
36931	Entergy Texas	Restoration Costs
39504	CenterPoint Energy Houston Electric	Remanded True-up Costs
39722	AEP Texas Central Company	Remanded True-up Costs
40627	Austin Energy	Rate Issues
45188	Oncor Electric Delivery Company; et al.	Federal Inc. Taxes; Cost of Capital
46238	NextEra, Oncor	Federal Income Taxes
45414	Sharyland Utilities, et al.	Federal Income Taxes
46936	Southwestern Public Service Co.	Wind Facilities—Rate Treatment
46936	Southwestern Public Service Co.	Testimony in Support of Stipulation
46957	Oncor Electric Delivery Company	Testimony in Support of Stipulation (included in AIS item #420)
47527	Southwestern Public Service Company	Testimony in Support of Stipulation
48401	Texas-New Mexico Power Company	Testimony in Support of Stipulation

Oncor - Docket No. 48929
STAFF RFI Set No. 3 (Joint Applicants)
Question No. 3-02
Page 1 of 1

Request

If applicable, how will applicants approach the filing of interim updates of North and South Utility wholesale transmission service (WTS) rates following the close of this transaction? Specifically, what rates of return will Oncor and Sharyland assume for the North Utility and South Utility, respectively, for the calculation of return on rate base?

Response

The following response was prepared by or under the direct supervision of Stephen N. Ragland, the sponsoring witness for this response.

Following the close of the Proposed Transactions, the North Texas Utility and South Texas Utility will file interim updates of Wholesale Transmission Service (WTS) rates on a basis separate and apart from each other based on their respective invested capital amounts. As discussed on page 10, lines 16 through 26, of Mr. Ragland's direct testimony in this proceeding, before the North Texas Utility is combined with Oncor for purposes of Oncor's next base-rate case, any future interim updates for the North Texas Utility will be filed consistent with the baseline for the North Texas Utility as proposed in the allocation of the WTS rate shown in Exhibit DGW-6 to the direct testimony of Mr. Wilks. Future interim transmission cost of service update proceedings for the North Texas Utility will reflect this proposed baseline, including consistent cost-of-service recoveries (depreciation, taxes other than income taxes, and federal income tax) and return on rate base as embedded in the cost of service and return included in the allocation of the WTS. As presented in Oncor's response to TIEC RFI Set No. 2 (Oncor), Question No. 2-20, Sharyland's currently authorized Weighted Average Cost of Capital (WACC) is 8.06% based upon a 6.73% Cost of Debt, an authorized Return on Equity (ROE) of 9.7%, and an authorized regulatory capital structure of 55% long-term debt and 45% equity.

Please see the SDTS/SU response to this request for the South Texas Utility.

Oncor - Docket No. 48929
STAFF RFI Set No. 1 (Joint Applicants)
Question No. 1-01
Page 1 of 1

Request

For any currently approved interim updates filed under 16 TAC § 25.192(h) to the transmission rates of Sharyland, who will be responsible for filing a reconciliation of those rates under 16 TAC § 25.192(h)(2)? In the event that any amounts included in the interim updates are found to be unreasonable under 16 TAC § 25.192(h)(2), how, and by whom, will such amounts be refunded?

Response

The following response was prepared by or under the direct supervision of Stephen N. Ragland and Don J. Clevenger, the sponsoring witnesses for this response.

Oncor will be responsible for filing a reconciliation of the transmission rates relevant to the transmission assets, previously owned by SDTS, which will constitute the North Texas Utility transmission provider under the Proposed Transactions.

Any amounts found unreasonable, related to the assets described above, will be refunded by Oncor through an applicable Transmission Cost of Service ("TCOS") tariff adjustment.

**SHARYLAND & SDTS'S RESPONSE TO COMMISSION STAFF'S
FIRST SET OF REQUESTS FOR INFORMATION**

STAFF 1-1:

For any currently approved interim updates filed under 16 TAC § 25.192(h) to the transmission rates of Sharyland, who will be responsible for filing a reconciliation of those rates under 16 TAC § 25.192(h)(2)? In the event that any amounts included in the interim updates are found to be unreasonable under 16 TAC § 25.192(h)(2), how, and by whom, will such amounts be refunded?

Response:

The entity responsible for filing a reconciliation of rates under 16 TAC § 25.192(h)(2) will be the entity that owns the assets after consummation of the Proposed Transactions. Similarly, in the event that any amounts previously included in Sharyland's interim updates are found unreasonable, the entity that owns the assets after consummation of the Proposed Transactions will be responsible for refunding any such amounts in the manner prescribed by the Commission.

SDTS does not have any information responsive to the request.

Preparer: D. Greg Wilks (Sharyland); Brant Meleski (SDTS)
Sponsor: D. Greg Wilks (Sharyland); Brant Meleski (SDTS)

Oncor - Docket No. 48929
CITIES RFI Set No. 1
Question No. 1-06
Page 1 of 1

Request

Refer to the Direct Testimony of Don Clevenger at 18 wherein he states that:
"Oncor is requesting that the Commission affirm that, consistent with GAAP, this cash equity contribution by Oncor's parents will be treated as equity for the calculations reported in Oncor's Earnings Monitoring Report solely for determining compliance with Oncor's debt-to-equity ratio" and states that: "Oncor expects goodwill to be added to its book as a result of the Proposed Transactions. Oncor is not requesting that this goodwill be included in Oncor's rate base or be recovered through Oncor's rates."

- a. Confirm that the additional equity will be included in the common equity used to calculate the earned rate of return in Oncor's Earnings Monitoring Report and not "solely for determining compliance with Oncor's debt-to-equity ratio." If denied, then describe how Oncor will remove the additional equity from the common equity used to calculate the earned rate of return in Oncor's Earnings Monitoring Report.
- b. Confirm that the goodwill reflected in the additional equity will not be included in the common equity ratio used to calculate the return on rate base in any future Oncor or North Texas Utility rate proceeding.

Response

The following response was prepared by or under the direct supervision of Stephen N. Ragland, the sponsoring witness for this response.

- a. Deny. Oncor would propose that it provide two Schedules V, Weighted Average Cost of Capital, in its annual Earnings Report. Each would be a separate and distinct representative calculation for a separate and distinct purpose. In other words, the result of each calculation would serve the purpose of providing pertinent information, either regulatory or financing, to the user of that information. The first Schedule V is to be used for the traditional calculation of Oncor's regulated earned rate of return for the reporting year and will exclude the goodwill portion of the equity investment made by Oncor's owners for purposes of this transaction. The second Schedule V will include the goodwill portion related to this transaction to reflect Oncor's capital structure in accordance with Generally Accepted Accounting Principles, solely for determining compliance with Oncor's debt-to-equity ratio. This second calculation is appropriate in that it allows Oncor to accurately reflect the pertinent value of the assets on its balance sheet, and therefore, Oncor's relevant financial condition when financing new long-term debt.
- b. Confirm. Neither Oncor nor North Texas Utility will include the additional goodwill equity identified in this transaction as part of its common equity ratio in future rate proceedings.

Oncor - Docket No. 48929
STAFF RFI Set No. 4 (Joint Applicants)
Question No. 4-51
Page 1 of 1

Request

Please refer to the Don J. Clevenger testimony, page 18. Please:

- a) Explain and provide a quantified accounting treatment of the cash equity contributions invested by Oncor's owners to finance the acquisition; and
- b) Provide an example of the equity treatment for Oncor's earnings monitor report.

Response

The following response was prepared by or under the direct supervision of Stephen N. Ragland, the sponsoring witness for this response.

- a) The initial accounting for the equity contributions invested by Oncor's owners to finance the acquisition will be a debit to cash and a credit to equity in the amount of approximately \$1.330 billion. Please see page 16, lines 4 through 5, of Mr. Clevenger's direct testimony. As discussed on page 15, lines 1 through 12, of Mr. Clevenger's direct testimony, Oncor will pay the InfraREIT owners and InfraREIT Partners limited partner consideration of approximately \$1.275 billion to acquire InfraREIT and its subsidiaries. For additional information regarding the accounting for this Proposed Transaction, please see Oncor's responses to Staff RFI Set No. 1 (Joint Applicants), Question No. 1-02 and Cities RFI Set No. 2 (Oncor), Question No. 2-13, for the expected accounting journal entries resulting from the Oncor Merger Agreement. As discussed in Mr. Clevenger's direct testimony, beginning on page 15, line 23, and continuing through page 16, line 5, Oncor anticipates using the remainder of the cash contribution from Oncor's owners to pay down assumed debt of InfraREIT and its subsidiaries.
- b) Please see Attachment 1 to this response for the example of the equity treatment for Oncor's annual earnings report. Page 1 of the Attachment, identified as Schedule V, excludes the goodwill portion of the equity contribution resulting from the Proposed Transactions and is intended for the traditional calculation of Oncor's regulated earned rate of return for the reporting year. Page 2 of the Attachment, identified as Schedule Va, includes the goodwill portion of the equity contribution resulting from the Proposed Transactions and is intended to reflect Oncor's capital structure in accordance with Generally Accepted Accounting Principles (GAAP), solely for determining compliance with Oncor's debt-to-equity ratio. This second calculation is appropriate in that it allows Oncor to accurately reflect the pertinent value of the assets on its balance sheet, and therefore, Oncor's relevant financial condition when financing new long-term debt. Please see Oncor's response to Staff RFI Set No. 4 (Joint Applicants), Question No. 4-52 for further discussion of this proposed reporting format.

ATTACHMENT:

ATTACHMENT 1 – Example of the equity treatment for Oncor's earnings report, 2 pages.

DOCKET 48929 ATTACHMENT 1
TO PUC STAFF RFI SET NO. 4
QUESTION NO. 4.51
Page 1 of 2

Example of Equity Treatment for Earnings Report

Oncor Electric Delivery Company LLC
12 Months Ending June 30, 2018

Schedule V

Weighted Average Cost of Capital

Line	(a) Balance	(b) Percent of Total	(c) Cost	(d) Weighted Cost
1 Common Equity	5,202,535,759	43.32%	9.79% *	4.24%
2 Preferred Stock		0.00%	0.00%	0.00%
3 Long-Term Debt	6,808,143,110	56.68%	5.83%	3.30%
4 Short-Term Debt		0.00%	0.00%	0.00%
5				
6 Total	\$12,010,678,870	100.00%		7.54%

*This return on equity was
allowed in Docket No: Listed below
The final order was issued on: Listed below

Notes: The costs and balances of preferred stock, long-term debt, and short-term debt
should correspond with those provided on Schedules VI, VII, VIII, and VIII

[] Indicate here if footnote or comment relating to this schedule is included on Supp Sched IV.

(a)	Oncor	North Texas Utility	Consolidated
Adjustments to Equity:			
Membership interests	\$ 8,281,191,671	\$ 1,275,000,000	\$ 9,556,191,671
Effects of the merger/acquisition	\$ (3,734,655,912)	\$ (619,000,000)	\$ (4,353,655,912)
Common Equity Line 1	\$ 4,546,535,759	\$ 656,000,000	\$ 5,202,535,759
This return on equity was allowed	9.80%	9.70%	9.79%
Docket No:	48957	41474	
The final order was issued on:	10/13/2017	01/23/2014	
Long-Term Debt	\$ 5,964,743,110	\$ 843,400,000	\$ 6,808,143,110
Cost of debt allowed in above Dockets	5.70%	6.73%	5.83%

DOCKET 48929 ATTACHMENT 1
TO PUC STAFF RFI SET NO. 4
QUESTION NO. 4-51
Page 2 of 2

Example of Equity Treatment for Earnings Report

Oncor Electric Delivery Company LLC
12 Months Ending June 30, 2018

Schedule Va

Weighted Average Cost of Capital

Line	(a) Balance	(b) Percent of Total	(c) Cost	(d) Weighted Cost
1 Common Equity	5,821,535,759	46.09%	9.78%	4.51%
2 Preferred Stock		0.00%	0.00%	0.00%
3 Long-Term Debt	6,808,143,110	53.91%	5.83%	3.14%
4 Short-Term Debt		0.00%	0.00%	0.00%
5				
6 Total	\$12,629,678,870	100.00%		7.65%

*This return on equity was
allowed in Docket No: Listed below
The final order was issued on: Listed below

Notes: The costs and balances of preferred stock, long-term debt, and short-term debt
should correspond with those provided on Schedules VI, VII, VIII, and IX.

[] Indicate here if footnote or comment relating to this schedule is included on Supp Sched IV.

(a)	Oncor	North Texas Utility	Consolidated
Adjustments to Equity:			
Membership interests	\$ 8,281,191,671	\$ 1,275,000,000	\$ 9,556,191,671
Effects of the merger	\$ (3,734,655,912)		\$ (3,734,655,912)
Common Equity	\$ 4,546,535,759	\$ 1,275,000,000	\$ 5,821,535,759
This return on equity was allowed	9.800%	9.700%	9.78%
Docket No:	48957	41474	
The final order was issued on:	10/13/2017	01/23/2014	
Long-Term Debt	\$ 5,964,743,110	\$ 843,400,000	\$ 6,808,143,110
Cost of debt allowed in above Dockets	5.70%	6.73%	5.83%

Oncor - Docket No. 48929
STAFF RFI Set No. 4 (Joint Applicants)
Question No. 4-52
Page 1 of 1

Request

Refer to Staff RFI No. 4-51. Please also explain how the cash equity contributions invested by Oncor's owners to finance the acquisition specifically comply with the debt-to-equity ratio requirement (No. 56) set by the final Order in Docket No. 47675.

Response

The following response was prepared by or under the direct supervision of Stephen N. Ragland, the sponsoring witness for this response.

Oncor's debt-to-equity ratio established in Docket No. 47675, Finding of Fact No. 56, serves two important separate and distinct purposes.

First, it establishes the approved capital structure to be used for ratemaking purposes. As stated on page 18, lines 11 through 12, of Mr. Clevenger's direct testimony, Oncor is not requesting that the goodwill associated with the Proposed Transactions be included in Oncor's rate base or be recovered through Oncor's rates.

Second, this debt-to-equity ratio was also enacted to ensure that Oncor does not diminish the long-term solvency of the business and its potential capacity to generate and obtain investment resources ("financial strength") by potentially over-leveraging its capital structure. As presented beginning on page 12, line 25, and continuing through page 13, line 5, of Mr. Ragland's direct testimony in this proceeding, the Joint Applicants are requesting that the Commission find that the cash equity contributions invested by Oncor's owners used to directly finance the transactions contemplated by the Oncor Merger Agreement and Asset Exchange Agreement will be included in the calculations reported in Oncor's Earnings Monitoring Report solely for purposes of determining compliance with Oncor's debt-to-equity ratio requirement as set by the final order in Docket No. 47675. This finding requests confirmation from the Commission that this equity contribution, including the goodwill portion, used to fund the purchase of utility plant will be treated consistent with Generally Accepted Accounting Principles ("GAAP"). Under GAAP, the cash equity contribution that Oncor will receive from its parent, including the goodwill portion, will be booked as equity at Oncor. Please see Oncor's response to Cities RFI Set No. 1 (Oncor), Question No. 1-06, for a description of how this information will be presented in Oncor's Annual Earnings Monitoring Report. This treatment of the equity contribution from Oncor's parent, in accordance with GAAP, more accurately recognizes the full value of the assets acquired through the Proposed Transactions and, therefore, demonstrates Oncor's real financial strength. Reporting Oncor's capital structure in this manner affords Oncor more flexibility in future financings. For example, Oncor may more efficiently refinance existing long-term debt with new lower-cost long-term debt, avoiding the necessity for defeasance and its associated costs.