reflected in the workpapers supporting Schedule II-B-1 (see WP/II-B-1/03 through WP/II-B-1/07).

Q. HAVE ANY OTHER ELECTRIC PLANT COSTS BEEN ALLOCATED TO THE TRANSMISSION (TRAN) FUNCTION?

A. Yes. Similar to load serving equipment within a transmission switching station being allocated to the DIST function, certain high-voltage transmission equipment is located within distribution substations. This investment is recorded in FERC A360, A361, and A362, as well as account 374 that Oncor uses to record non-depreciable distribution-related *Land Owned in Fee* assets. This high-voltage equipment within the distribution substations primarily consists of high-voltage breakers, capacitors, and transmission dead-end structures. Allocation of the high-voltage assets reflected in these accounts is also based on the voltage rating designation reflected in Oncor's continuing property records, with assets with voltage ratings greater than 60 kilovolts being assigned to the TRAN function. The original costs of common equipment within the distribution substation, such as batteries, system control and dispatch devices, station fencing, and property grading and landscaping that could not be directly assigned, were allocated between TRAN and DIST based on factors reflecting the ratio of directly assigned T&D costs to the total of assigned substation investment. Again, supporting workpapers related to the asset assignment and allocation calculations are reflected in the workpapers for Schedule II-B-1 (see WP/II-B-1/08 through WP/II-B-1/12).

b. Direct-Current Interconnection Investment

Q. DOES ONCOR HAVE TRANSMISSION INVESTMENT RELATED TO DIRECT-CURRENT INTERCONNECTIONS WITH AREAS OUTSIDE OF THE ERCOT REGION ("DC-TIES")?

A. Yes. Oncor owns a one-sixth interest in the ERCOT East DC-Tie, a back-to-back 600 MW HVDC converter located between the Oncor ERCOT Monticello substation and the Southwestern Electric Power Company

Welsh substation, the latter of which is located in the Southwest Power Pool ("SPP") region. As required by Note 7 of the RFP General Instruction No. 8, Oncor has separately identified its investment in transmission PP&E assets related to DC-Ties. As shown in column (h) of Schedule III-B, Oncor's Net Plant in Service investment related to DC-Ties totaled $11.6 million at the 2021 test-year-end and a net total investment of $9.7 million reflected in the 2021 test-year-end rate base. In addition, as shown on Schedule III-A-1, the functional annual cost of service related to DC-Ties is about $2.2 million. As addressed in Company witness Mr. Watson's direct testimony, investment in unique PP&E assets, such as DC-Ties, represents unique considerations concerning service lives and net removal/salvage costs.

c. Plant Acquisition Adjustment

Q. DOES ONCOR HAVE USED AND USEFUL TRANSMISSION PLANT INVESTMENT THAT IS NOT REFLECTED IN FERC A101 – *ELECTRIC PLANT IN SERVICE*?

A. Yes. Both Oncor and Oncor NTU have energized transmission plant investment that is not recorded in EPIS (FERC A101). In instances of acquisitions of existing PP&E, the USOA provides that the difference between the cost to an acquiring utility purchasing an operating unit or system and the original cost net book value of such property is recorded to FERC A114 (*Electric Plant Acquisition Adjustments*). Pursuant to the 2015 settlement and Order in Docket No. 44671 relating to Oncor's acquisition of certain assets from Southwestern Public Service Company ("SPS"), Oncor, as an acquiring utility, recognized a PP&E asset of $997,299 in FERC A114 (as a component of rate base) reflecting the difference between the consideration Oncor paid for the assets and the seller's net book value of the assets. As approved in Docket No. 46957, Oncor began an approximate 14.8 year amortization period (*i.e.*, its remaining estimated useful life) of this plant acquisition adjustment, coincident with the implementation of rates in November 2017. At the 2021 test-year-end, a balance of approximately $721,000 related to this transaction remains in FERC A114. The calculation of the annual amortization expense of about $67,600 annually is shown in my workpaper WP/II-B-11/01.

In addition, as approved in Docket No. 46957, Oncor acquired the negative plant acquisition of about $2.7 million recorded in FERC A114 from SDTS as a result of the November 2017 asset exchange transaction between Oncor and SDTS arising from the Docket No. 46957 settlement ("2017 Asset Exchange"). At the 2021 test-year-end, the remaining unamortized balance of this negative plant acquisition adjustment reflected a credit total of $2,266,261. This plant acquisition adjustment is being amortized over the estimated life of the related assets and serves to reduce recognized amortization expense by $98,236 annually.

In Docket No. 41430, the Commission approved in 2013 an acquisition by SDTS of transmission assets held by SPS. Consistent with the guidance in the USOA for FERC A114, SDTS recognized a PP&E acquisition adjustment of approximately $29.3 million. As reflected in the final Order in Docket No. 41430, the Commission found that the acquisition was in the public interest and that the purchase price was reasonable (*e.g.*, see Finding of Fact Nos. 73, 85, and 88), but ruled that the "ratemaking treatment of the acquisition adjustment associated with the purchase of the facilities will be determined in Sharyland's next base rate case" (see Ordering Paragraph No. 3 and Conclusion of Law No. 14). Notwithstanding that determination, following completion of the transaction with SPS, SDTS/SU commenced amortization of the acquisition adjustment amount over the expected remaining useful life of the assets. As discussed earlier, the InfraREIT Acquisition resulted in Oncor acquiring the assets purchased pursuant to the Docket No. 41430 Order. As of the 2021 test-year-end, there remains a balance of $23.5 million in unamortized FERC A114 investment related to Oncor NTU.

As discussed in Company witness Mr. Speed's direct testimony, SDTS's purchase of these assets prior to the InfraREIT Acquisition reflects prudent acquisition of used and useful assets at a price below alternative options then available to meet the utility's needs. Accordingly, consistent with instructions contained within the USOA, Oncor requests in this proceeding the recovery of about $851,000 annually over the assets' remaining estimated useful life of approximately 27.56 years and rate base inclusion of the $23.5 million remaining amount related to the acquisition adjustment now on Oncor's books resulting from the InfraREIT Acquisition. Company witness Mr. Watson has provided me the estimated remaining useful life of these assets as of the 2021 test-year-end in order to determine the annual amortization expense associated with the investment in Oncor NTU FERC A114. The calculation of the annual amortization expense is contained in my workpaper WP/II-B-11/03.

d. Lubbock Power & Light Interconnection Assets

Q. PLEASE DESCRIBE THE JOINT PROJECT BETWEEN ONCOR AND THE CITY OF LUBBOCK, ACTING THROUGH LP&L.

A. As described in the direct testimony of Oncor witness Mr. Speed, another aspect of the InfraREIT Acquisition relates to a joint project involving the build out of approximately 175 miles of transmission lines and associated station work to join the City Of Lubbock to the ERCOT market, with final ownership of the resulting assets being equally shared between Oncor and LP&L ("Interconnection Plan"). The joint project was completed in 2021 and involved Oncor constructing the facilities and LP&L reimbursing Oncor for LP&L's respective share of the assets. The LP&L-owned assets and a corresponding liability were removed from Oncor's balance sheet at the end of the project when title to the LP&L portion of the assets was transferred to LP&L. As a unique and nonrecurring construction project, the transfer of title was accounted for as a sale of nonfinancial assets at cost.

Q. DO THE FINANCIAL RECORDS OF ONCOR REFLECT AN EQUAL SHARING OF THE JOINT CONSTRUCTION PROJECT COSTS BETWEEN ONCOR AND LP&L AT THE 2021 TEST-YEAR-END?

A. No. As described in the joint application of Oncor and the City of Lubbock in Docket No. 52726, the commercial agreement between the parties requires a 50/50 ownership split of the final costs of the Interconnection Plan. To achieve this equal split of the costs, the joint applicants seek authorization to transfer a portion of Oncor's ownership and associated certificate of convenience and necessity rights of the Wadsworth to New Oliver to Farmland 345-kV transmission line ("WNF Line"). The transfer of ownership to LP&L involves approximately $4.6 million of assets, at book value, representing 2.79 miles of the WNF Line south of the New Oliver Switching Station presently reflected in Oncor's EPIS balance.

Q. IS ONCOR REQUESTING INCLUSION OF THE INVESTMENT IN THIS 2.79 MILES OF THE WNF LINE IN ITS RATE BASE IN THIS PROCEEDING?

A. No. As reflected in RFP Schedule II-B and supporting schedules and workpapers (*e.g.*, see WP/II-B-1 K&M Adjustment), the Company has removed $4.6 million of investment from its year-end 2021 rate base.

<u>2. Distribution Plant</u>

Q. HOW HAS ONCOR FUNCTIONALIZED ITS 2021 TEST-YEAR-END BALANCES OF INVESTMENT IN DISTRIBUTION PLANT?

A. As defined in 16 TAC §25.341(5), "distribution relates to system and discretionary services associated with facilities below 60 kilovolts necessary to transform and move electricity from the point of interconnection of a generation source or third-party electric grid facilities, to the point of interconnection with a retail customer or other third-party facilities, and related processes necessary to perform such transformation and movement." Pursuant to the USOA, the major components of the Company's distribution plant EPIS is recorded in FERC A360 through A373, as well as *A374 Land Owned in Fee*. Similar to the functionalization of transmission plant described above, the majority of the investment reflected in these FERC accounts can be directly assigned to the DIST function. For the approximate four percent of the total original cost investment reflected in FERC A360 through A374 that reflects PP&E operating <u>at or above</u> 60 kilovolts, such costs have been identified in the Company's continuing property records and appropriately assigned to the TRAN function. This investment consists primarily of station dead-end structures and high-voltage breakers located within distribution substations. Supporting workpapers related to the asset assignment and allocation calculations are reflected in the workpapers for RFP Schedule II-B-1 (see WP/II-B-1/01 through WP/II-B-1/12).

Q, DOES ONCOR INVESTED CAPITAL IN DISTRIBUTION PLANT IN SERVICE INCLUDE ASSETS THAT ARE HELD IN RESERVE?

A. Yes. Consistent with Commission precedent, the "used and useful" concept relating to EPIS includes plant currently providing or capable of providing utility service to the public. In addition, the USOA specifically identifies certain distribution plant as EPIS, whether energized or not. By definition, the USOA indicates that FERC A101 *(Electric Plant in Service)* shall include the "original cost of electric plant, included in accounts 301 to 399". Specifically, with regard to distribution plant investment, the USOA provides that FERC A368 *(Line Transformers)* "... shall include the cost installed of overhead and underground distribution line transformers and pole-type and underground voltage regulators owned by the utility, for use in transforming electricity to the voltage at which it is used by the customer, <u>whether actually in service or held in reserve</u>" (emphasis added). As described in the direct testimony of Company witness Ms. Ellen E. Buck, adequate reserve distribution plant investment is critical to meeting Oncor's obligation to provide reliable electricity delivery service and is used and useful for responding to customer growth, storm damage, equipment failure, and other replacement needs.

3. Metering Investment

Q. PLEASE DESCRIBE ADDITIONAL PP&E ASSETS REFLECTED IN FERC A360 THROUGH A374 THAT HAVE BEEN ASSIGNED TO A FUNCTION OTHER THAN DISTRIBUTION (DIST).

A. The USOA includes FERC A370 *(Meters)* within the Distribution Plant electric plant accounts. Amounts reflected in FERC A370 include the costs of measurement equipment, related hardware, and the related costs of installation. However, consistent with the cost separation objectives set forth in 16 TAC § 25.344, assets related to T&D utility metering system services are assigned to the MET function. At the 2021 test-year-end, the Company's original cost of PP&E investment recorded to FERC A370 totaled about $574 million.

Q. DOES THE COMPANY HAVE ADDITIONAL METERING INVESTMENT COSTS THAT ARE NOT REFLECTED IN FERC A370?

A. Yes. Pursuant to Oncor's advanced metering system ("AMS") deployment plan approved in Docket No. 35718, an under-recovery of costs existed at the time of the November 2017 termination of Oncor's Advanced Metering Cost Recovery Factor tariff. As I will discuss later in my direct testimony, these under-recovered costs are reflected in the Company's regulatory assets and liabilities.

Q, DOES ONCOR'S INVESTED CAPITAL IN METERING PLANT IN SERVICE INCLUDE ASSETS THAT ARE HELD IN RESERVE?

A. Yes. Similar to the discussion above regarding reserve transformers and regulators, Oncor's treatment of investment in metering equipment is consistent with Commission precedent. The "used and useful" concept relating to EPIS includes plant currently providing or capable of providing utility service to the public. With regard to metering plant investment, the USOA provides that FERC A370 *(Meters)* "... shall include the cost installed of meters or devices and appurtenances thereto, for use in measuring the electricity delivered to its users, whether actually in service or held in reserve" (emphasis added). As described in the direct testimony of Company witness Mr. Daniel E. Hall, adequate reserve metering plant investment is critical to meeting Oncor's obligation to provide reliable electricity delivery service and is used and useful for responding to customer growth, storm damage, equipment failure, and other replacement needs.

4. Communication Equipment

Q. HOW HAS ONCOR FUNCTIONALIZED THE BALANCES OF ITS 2021 TEST-YEAR-END INVESTMENT IN COMMUNICATION EQUIPMENT?

A. Pursuant to the USOA, Oncor's general plant PP&E is recorded in FERC A389 through A399, as well as A388, which Oncor uses to record non-depreciable general plant-related *Land Owned in Fee* investment. Included in this USOA grouping is FERC A397 (*Communication Equipment).* To the fullest extent possible, Oncor's investment in telecommunications PP&E has been directly assigned to the business function utilizing the equipment. A significant portion of the original cost of EPIS reflected in FERC A397 reflects load monitoring equipment used solely by the TRAN business; however, microwave equipment, fiber optic networks, and other common telecommunications PP&E are used by both the TRAN and DIST business functions. As discussed in the direct testimony of Company witnesses Mr. Martin and Ms. Malia A. Hodges, the Company is engaged in a multi-year Telecommunications Refresh Program ("TRP") project with investments placed in service between 2017 and 2021, and work is continuing. Among other objectives, the TRP project involves replacing aging or no longer third-party supported telecommunication networks, enhancing end-to-end connectivity, addressing cyber security and regulatory requirements, improving field location connections, and increasing push-to-talk communication capability. The TRP project results in even greater common usage of telecommunications PP&E among functions. In cases where direct assignment of costs is not feasible, the costs related to these common telecommunications assets have been allocated based on internally-prepared functionalized facility usage studies (*e.g.*, functional square-footage analysis) related to the facility containing the equipment. As shown on RFP Schedule II-B-3, the original gross cost of Oncor's functionalized PP&E assets reflected in FERC A397 totals more than $190 million at the 2021 test-year-end. Additional information concerning the allocation of telecommunications equipment to Oncor's business functions may be found in my workpaper WP/II-B-3/01.

5. Leased Mobile Generation Equipment

Q. PLEASE DESCRIBE THE LEASED MOBILE GENERATION EQUIPMENT REFLECTED IN ONCOR'S 2021 TEST-YEAR-END NET RATE BASE.

A. As described earlier in my direct testimony (see section III.C.3.), Oncor has leased multiple mobile generation assets to aid the Company's ability to restore power after a widespread power outage event. Pursuant to US GAAP, the leases for these assets are considered operating leases. Consistent with the provisions in PURA § 39.918(h), the $3.1 million portion of the Company's ROU assets associated with the mobile generation assets have been reflected in RFP Schedule II-B-1 and a similar amount has been provided to Oncor witness Mr. Kevin R. Fease for inclusion in the calculation of the weighted average cost of long-term debt shown in RFP Schedules II-C-2.4 and II-C-2.4a.

6. Long Lead-Time Assets

Q. ARE THERE OTHER FINANCIAL AND OPERATING IMPLICATIONS ARISING FROM THE PROVISIONS OF PURA § 39.918?

A. Yes, the leasing and operation of facilities that provide temporary emergency electric energy to aid in restoring power to a utility's distribution customers is just one of the facets of the 2021 legislation reflected in PURA § 39.918(b). The legislation also provides in § 39.918(b)(2) that a T&D utility may procure, own, and operate (or enter into a cooperative agreement to procure, own, and operate) transmission and distribution facilities that have a lead time of at least six months ("long-lead-time assets") and that would aid in restoring power to a utility's distribution customers following a widespread power outage event. Furthermore, PURA § 39.918(h)(2) provides that a T&D utility is permitted to recover the reasonable and necessary costs of procuring, owning, and operating the long-lead-time assets, using the rate of return on investment from the utility's most recent base rate proceeding.

Q. WHAT ARE THE PLANT AND REGULATORY ACCOUNTING IMPLICATIONS FOR THE ASSETS RELATED TO PURA § 39.918(b)(2)?

A. As a result of the legislation, certain long-lead-time assets will now be pre-capitalized and placed in service at the time of procurement. Consistent with the USOA [see Electric Plant Instruction 3.A.(17)], "When a part only of a plant or project is placed in operation or is completed and <u>ready for service</u> but the construction as a whole is incomplete, that part of the cost of the property placed in operation or <u>ready for service</u>, shall be treated as *Electric Plant in Service* and allowance for funds used during construction thereon as a charge to construction shall cease" (emphasis added). Further, PURA § 39.918(i) provides that the Commission shall authorize a T&D utility "to defer for recovery in a future ratemaking proceeding the incremental operations and maintenance expenses and the return, not otherwise recovered in a rate proceeding, associated with the leasing or procurement, ownership, and operation of the facilities." Thus, to the extent that current rates do not reflect the costs of the long-lead-time assets (as well as the leased mobile generation facilities described previously), the legislation will result in the deferral of related costs in a regulatory asset.

Q. IS THIS PROVISION TO PRE-CAPITALIZE THESE LONG-LEAD-TIME ASSETS UNIQUE IN THE INDUSTRY?

A. No. As mentioned earlier in my direct testimony, (see Sections IV.A.2. and IV.A.3.), certain long-lead-time assets (*e.g.*, transformers, switchgear, and network devices) have previously been eligible for pre-capitalization at the time of procurement. The legislation broadens the types of facilities eligible for pre-capitalization (*e.g.*, structures, high-voltage breakers, and relay houses for restoring utility service after a widespread power outage event).

Q. AT THE DECEMBER 2021 TEST-YEAR-END, HAD ONCOR RECORDED ANY LONG-LEAD-TIME ASSETS PURSUANT TO PURA § 39.918(b)(2)?

A. No.

7. Other General Plant and Intangible Plant

Q. HOW HAS ONCOR FUNCTIONALIZED ITS 2021 TEST-YEAR-END BALANCES OF INVESTMENT IN OTHER GENERAL PLANT AND INTANGIBLE PLANT?

A. Excluding the telecommunications equipment investment reflected in FERC A397, Oncor's remaining other general plant investment reflected in FERC A389 through A399 (as well as A388 for general plant *Land Owned in Fee* and Oncor's intangible plant recorded in FERC A303) is summarized in RFP Schedule II-B-2. Generally, the continuing property records reflected in the Company's accounting system include coded information related to the location of the specific assets recorded as other general plant assets. These location codes enable the Company to link general plant assets to operational groups based on their physical location.

To directly assign the cost of owning and maintaining general plant property to a reasonable extent, the Company conducts periodic facility utilization studies for each general plant office, service center, and storeroom location to determine actual facility use by business function. Using the information obtained from these facility studies, functionalized occupancy factors are developed for each facility that is shared by more than one business function. Accordingly, the associated costs related to the general plant assets (*e.g.*, net plant investment, depreciation charges, ad valorem taxes) are assignable to the business functions in proportion to their respective facility usage percentage. The results of the Company's functionalized square-footage occupancy study are contained in workpaper WP/II-B-2/01. Workpaper WP/II-B-2/03 provides details of the allocation of costs of the Company's general plant offices and related equipment based on the square-footage utilization studies.

Q. HOW HAS ONCOR ASSIGNED ITS INVESTMENT IN COMPUTER EQUIPMENT?

A. Investment in computer equipment, such as processors or printers, was assigned to the business functions based on functionalized computer business system investment. Please see workpaper WP/II-B-2/02 for supporting information.

Q. HOW HAS ONCOR ASSIGNED THE TEST-YEAR-END INVESTMENT IN TRANSPORTATION EQUIPMENT RECORDED IN FERC A392?

A. The Company maintains a fleet management system that tracks each unit of Oncor's transportation equipment by the functionalized department identification code ("Dept ID") that identifies the organization using the asset. Accordingly, the costs reflected in FERC A392 have been assigned directly to the appropriate business function represented by the Dept ID. Workpaper WP/II-B-2/03 contains supporting information regarding the assignment of applicable transportation assets to the various business functions.

Q. HAS THE COMPANY REFLECTED ITS AVIATION TRANSPORTATION ASSETS IN ONCOR'S ELECTRIC PLANT IN SERVICE REQUESTED IN THIS CASE?

A. No. The Company owns minor interests in aviation transportation assets totaling $4.3 million at the 2021 test-year-end. The net book value of $3.1 million related to these aviation interests has been excluded from the Company's requested rate base in this proceeding. I have provided this information to Oncor witness Mr. Watson for consideration of the applicable depreciation and amortization rates for transportation assets. Also, operating expenses related to these aviation assets have also been removed from the requested cost of service (see workpaper WP/II-D ADJUSTMENT/13).

Q. HOW HAS THE COMPANY ASSIGNED ITS INVESTMENT IN INTANGIBLE PLANT ASSETS RECORDED IN FERC A303?

A. The investment in Intangible Plant assets recorded in FERC A303 consists of the capitalized costs of Oncor's computer business systems and software applications. The Company has assigned its intangible plant assets based on the actual business use of the assets to the fullest extent possible. For example, the investment in the Customer Care and Billing System has been assigned to the TDCS function. In contrast, costs related to common business software applications that support more than one business function, such as the Financial Information Management software application that provides the framework for recording and storing financial transactions, are allocated to the applicable business functions through allocations based on net plant factors. As shown in Schedule II-B-1, the Company's gross original cost of investment in intangible plant assets recorded in FERC A303 totals approximately $1,066 million at the 2021 test-year-end. Supporting workpapers related to the asset assignment and allocation calculations are reflected in the workpapers for RFP Schedule II-B-1.

B. Accumulated Depreciation

Q. PLEASE PROVIDE AN OVERVIEW OF YOUR DIRECT TESTIMONY RELATED TO ACCUMULATED DEPRECIATION CHARGES.

A. Depreciation expense is calculated on a straight-line basis over the estimated service lives of the assets in PP&E based on depreciation rates approved by the Commission. As is common in the electric utility industry, depreciation expense is recorded using composite depreciation rates that reflect blended estimates of the lives of major asset groups as compared to depreciation expense calculated on a component asset-by-asset basis. As described in Mr. Watson's direct testimony, depreciation rates include plant removal costs, net of salvage, as a component of depreciation expense, consistent with regulatory treatment. In practice, actual removal costs incurred (net of realized salvage proceeds) are charged to accumulated depreciation. As shown on Schedule II-B-5, the adjusted balance reflected in the accumulated provision for depreciation for Oncor's electric plant in service totals $9,999 million (*i.e.*, sum of lines 43 and 69) at the 2021 test-year-end. This balance represents the accumulated total of the original cost of plant investment and future net removal costs that have previously been recovered through the rate-making process to provide a "return of" investment that has been expended to provide electric delivery service to customers. Because the accumulated depreciation reflects the return of investment, it is deducted from a utility's rate base requiring a "return on" the net unrecovered investment.

Q. HOW HAS THE ACCUMULATED PROVISION FOR DEPRECIATION OF ELECTRIC UTILITY PLANT BEEN FUNCTIONALIZED IN THIS RATE FILING PROCEEDING?

A. Company witness Mr. Watson has provided me with the functionalized balances of the accumulated provision for depreciation based on the functionalization of EPIS that I have discussed previously.

C. Electric Plant Held for Future Use

Q. PLEASE DISCUSS ONCOR'S INVESTMENT IN ASSETS RECORDED AS ELECTRIC PLANT HELD FOR FUTURE USE.

A. Schedule II-B-6 of the RFP summarizes Oncor's investment in FERC A105 (*Electric Plant Held for Future Use)*. At the 2021 test-year-end, the total EPHFU investment totals $26.7 million. As discussed in Company witness Mr. Speed's direct testimony, Oncor's investment in EPHFU largely reflects acquired land tracts held for the construction of T&D facilities that will be needed to meet future growth and operational needs.

Q. IS ONCOR REQUESTING RATE BASE INCLUSION OF ITS FULL INVESTMENT IN EPHFU IN THIS PROCEEDING?

A. No. Consistent with Commission precedent in previous Oncor rate-making proceedings, Oncor has analyzed its investment in EPHFU and identified the assets that are planned to be placed in service within the next ten years. Accordingly, of the $26.7 million total EPHFU investment at December 31, 2021, the Company has included in rate base the $23.2 million of investment reflecting easements and land owned in fee to be used in the construction of future transmission switching stations and transmission line assets expected to be in service by the year 2031. A listing of Oncor's EPHFU at the 2021 test-year-end and the planned in-service dates is included in workpaper WP/II-B-6/01.

Q. HOW HAS ONCOR FUNCTIONALIZED ITS 2021 TEST-YEAR-END INVESTMENT OF EPHFU TO BE INCLUDED IN THE RATE BASE IN THIS PROCEEDING?

A. Each asset classified as EPHFU at the 2021 test-year-end was analyzed to determine the specific operational need for the property. In addition to the planned in-service date mentioned above, workpaper WP/II-B-6/01 also provides the intended purpose of the EPHFU assets and the functional assignment of the costs expected to be placed in service in the ten-year in-service window.

D. Construction Work In Progress

Q. PLEASE DISCUSS THE 2021 TEST-YEAR-END BALANCE OF CWIP INVESTMENT REFLECTED IN ONCOR'S FINANCIAL RECORDS.

A. As shown on Schedule II-B-4, at December 31, 2021, the Company had approximately $558.9 million invested in construction projects that are not yet in service. In addition, for regulatory reporting, retirement benefits recorded as regulatory assets, pursuant to Topic 715 discussed earlier, that relate to capital investment are reflected in the CWIP balance. PURA § 36.054(a) provides that "[c]onstruction work in progress, at cost as recorded on the electric utility's books, may be included in the utility's rate base," but the law notes that it is an exceptional form of rate relief only available to the extent that it is necessary to an electric utility's financial integrity. Accordingly, Oncor is not requesting rate base inclusion of any of its 2021 test-year-end CWIP in this rate-making proceeding.

E. Non-Tax Regulatory Assets and Liabilities

Q. PLEASE PROVIDE AN OVERVIEW OF THE COMPANY'S NON-TAX REGULATORY ASSETS AND LIABILITIES.

A. US GAAP Codification Topic 980 Regulated Operations (paragraph 05-5) provides that "Regulators sometimes include costs in allowable costs in a period other than the period in which the costs would be charged to by an unregulated entity. For the regulated entity, that procedure can do any of the following:

a. Create assets (future cash inflows that will result from the rate-making process)

b. Reduce assets (reductions of future cash inflows that will result from the rate-making process)

c. Create liabilities (future cash outflows that will result from the rate-making process)."

In accordance with Topic 980, Oncor defers the recognition of certain costs (regulatory assets) and certain obligations (regulatory liabilities) that, as a result of the rate-making process, have probable corresponding increases or decreases in future revenues.

In this section of my direct testimony, I will discuss Oncor's non-tax-related regulatory assets and liabilities and their effect on the Company's 2021 test-year cost of service. The direct testimony of Oncor witness Mr. Thenmadathil provides additional discussion concerning Oncor's regulatory assets related to unrecovered losses reflected in the Company's self-insurance reserve. Additional discussion concerning tax-related regulatory assets and liabilities is found in Company witness Ms. Clutter's direct testimony.

Q. WHAT IS THE BALANCE OF ONCOR'S REGULATORY ASSETS AND LIABILITIES AT THE 2021 TEST-YEAR-END?

A. As reported in Oncor's 2021 SEC Form 10-K (see Notes to Consolidated Financial Statements No. 2. *Regulatory Matters*), the net regulatory assets and liabilities reflects a net negative (*i.e.*, liability) balance of $1,329 million. As previously discussed, the Company's "Estimated net removal costs" regulatory liability of $1,348 million has been reclassified as accumulated depreciation for rate-making purposes in this proceeding. In addition, the regulatory liability of Oncor's "Excess deferred taxes" totaling $1,442 million is addressed in Company witness Ms. Clutter's direct testimony.

Excluding the two significant regulatory liabilities mentioned in the previous paragraph, the Company's net regulatory assets and liabilities totals $1,461 million. Key components of this total include the Company's unrecovered (1) employee retirement costs, (2) self-insurance reserve losses, (3) debt reacquisition costs, (4) under-recovered AMS costs, (5) unrecovered wholesale distribution service costs, and (6) deferred incremental operating costs associated with the Company's response to the COVID-19 pandemic. My Exhibit WAL-5 provides a summary of the Company's regulatory assets and liabilities reflected in Oncor's financial records and in this rate proceeding. I discuss each of these key components below, as well as other regulatory assets and liabilities.

1. Employee Retirement Costs

Q. PLEASE DESCRIBE THE REGULATORY ASSET AND LIABILITY AMOUNTS REPORTED AS EMPLOYEE RETIREMENT COSTS.

A. There are three primary components of Oncor's employee retirement cost regulatory assets and liabilities. The largest component reflects the employee retirement liability associated with amounts recorded pursuant to FASB Topic 715 relating to the net un-funded (regulatory asset) or over-funded (regulatory liability) status of the Company's defined post-employment benefit plans. Because Oncor determines its post-employment benefit plan allowance for its cost-based rates on the basis of Topic 715, a regulatory asset or liability is recorded for the amount that otherwise would have been charged to Other Comprehensive Income ("OCI") in the Company's financial reports. Given that this OCI-related net regulatory asset has not been recognized in Oncor's regulated costs (primarily operating O&M or capitalized construction costs), the amount has not been amortized and is not included in rate base for purposes of this filing.

The two remaining components of employee retirement costs reflected in Oncor's net regulatory assets and liabilities relate to amounts recorded pursuant to the provisions of PURA § 36.065(b), which provides that "(a)n electric utility may establish one or more reserve accounts for expenses for pensions and other postemployment benefits." For reporting purposes, Oncor has separated the amounts of its expenses related to pension and OPEB that are subject to deferral between: (1) those costs that have previously been reviewed in regulatory rate-making proceedings; and (2) those costs that have been incurred since Oncor's last rate-making proceeding. At the 2021 test-year-end, the balance of previously reviewed employee retirement costs being amortized totals $192 million. This reflects the remaining unamortized balance of the $349 million pension ($306.9 million) and OPEB ($42.5 million) of costs reflected in the stipulation and Order from Docket No. 46957 that presently are being amortized over a ten-year period that began in November 2017.

The balance of the pension and OPEB costs that have been deferred since Oncor's last rate-making proceeding (*i.e.*, costs incurred during the calendar years 2017 through 2021) reflects a net regulatory liability balance of $56.7 million at the 2021 test-year-end, including $17.4 million in over-recovered pension costs and $39.3 million in over-recovered OPEB costs.

Pursuant to PURA § 36.065(d), these amounts have been included in Oncor's 2021 test-year-end rate base determination. It should be noted that portions of the actuarially-determined employee retirement service costs during the 2017 through 2021 period have been capitalized as a component of construction expenditures or other assets as directed by the FERC USOA. (Also, see section III.E.2. of my direct testimony for additional discussion concerning construction overhead costs.)

Q. HOW HAVE THE EMPLOYEE RETIREMENT COST REGULATORY ASSETS AND LIABILITIES SUBJECT TO RATE BASE INCLUSION BEEN FUNCTIONALIZED IN THIS PROCEEDING?

A. Consistent with the guidance in RFP Schedule II-F, the default factor for employee pensions and benefits provides a reasonable functionalization of the regulatory assets and liabilities related to the Company's employee retirement obligations. The default factor reflects the Company's payroll costs, excluding administrative and general salaries, abbreviated as PAYXAG in the RFP Schedule II-F instructions. For purposes of functionalization in this proceeding, the retirement cost regulatory assets and liabilities that have already been approved (*i.e.*, pre-2017 costs accrued through year-end 2016 reviewed in Docket No. 46957) have been functionalized based on the PAYXAG functional ratios that existed during the 2016 test year. The separately accounted for post-December 2016 costs (*i.e.*, 2017 – 2021) have been functionalized based on the PAYXAG functional ratios reflected in RFP Schedule II-F from this proceeding.

As mentioned above, the pre-2017 pension and OPEB costs are presently being amortized over a ten-year period that began in November 2017. Even though the functional ratios in the respective 2016 and the 2021 test-year PAYXAG default factors do not appear to be dramatically different, adjusting the remaining unamortized balance of the pre-2017 costs to reflect the 2021 PAYXAG default factor produces a disproportionate adjustment shifting additional costs to the TRAN function. Therefore, I have not made any adjustments to the functionalization of the pre-2017 amounts approved in Docket No. 46957.

2. Self-Insurance Reserve

Q. PLEASE DESCRIBE ONCOR'S SELF-INSURANCE RESERVE PROGRAM RELATED TO PROPERTY AND LIABILITY LOSSES.

A. Pursuant to PURA § 36.064, Oncor has long maintained a self-insurance reserve for liability and property losses that could not have been reasonably anticipated and included under O&M expenses. As described in Oncor witness Mr. Gregory S. Wilson's direct testimony, the self-insurance reserve serves as a crucial component of the Company's risk management program and provides a lower cost alternative than external insurance, to the extent external commercial insurance is even available.

As described in the direct testimony of Company witness Mr. Thenmadathil, at the 2021 test-year-end, the Company's self-insurance reserve balance reflects a deficit balance of $588.5 million, including $223.3 million of historical losses that have previously been reviewed in rate-making proceedings (*i.e.*, occurred prior to January 1, 2017) and presently are being recovered and amortized over a ten-year period that began in November 2017. The remaining $365.3 million recorded in the self-insurance reserve regulatory asset reflects losses above the current annual $75 million self-insurance reserve provision agreed to and ordered in Docket No. 46957. Pursuant to PURA § 36.064(d), the self-insurance deficit balance (*i.e.*, "shortage") reflected in the regulatory asset is added to the Company's rate base.

Q. HOW HAVE THE AMOUNTS REFLECTED IN ONCOR'S REGULATORY ASSET FOR UNRECOVERED SELF-INSURED LOSSES BEEN FUNCTIONALIZED IN THIS PROCEEDING?

A. The historical annual provisions for property and liability losses are separately recorded to the reserve by function as previously granted in prior rate proceedings. In addition, as losses eligible for recovery in the self-insurance reserve are realized, they are recorded directly to either the DIST or TRAN business functions. Company witness Mr. Thenmadathil has provided me with the functionalized self-insurance reserve deficit regulatory asset, resulting in $562.76 million of DIST function costs and $25.78 million of TRAN function costs (including $3.65 million at Oncor NTU) in the respective functionalized rate base components.

3. Debt Reacquisition

Q. PLEASE DISCUSS THE DEBT REACQUISITION COSTS AND UNAMORTIZED GAIN ON REACQUISITION OF DEBT REFLECTED IN ONCOR'S 2021 SEC FORM 10-K NOTES TO CONSOLIDATED FINANCIAL STATEMENTS.

A. In general, securities reacquisition costs reflect the unamortized balances of the difference in consideration realized to redeem or replace higher cost debt issues with lower cost financing alternatives as compared to the book value of the debt redeemed. Costs associated with debt reacquisition activity by the Company have typically been recorded as a regulatory asset because they represent an investment that produces a net lower average debt cost that flows to the benefit of utility ratepayers. At the 2021 test-year-end, Oncor's regulatory assets include a balance of almost $19.5 million of unamortized debt reacquisition costs. Similarly, Oncor's regulatory liabilities summarized in the 2021 SEC Form 10-K reflect a $26.1 million unamortized gain on reacquired debt, primarily arising from a debt exchange transaction in September 2020.

Q. PLEASE DESCRIBE THE SEPTEMBER 2020 DEBT EXCHANGE TRANSACTION IN GREATER DETAIL.

A. On September 23, 2020, Oncor issued $300 million aggregate principal amount of senior secured notes due 2052 ("2052 Notes") in exchange for a like aggregate amount of certain existing senior secured debt scheduled to mature between 2029 and 2042. As described in the direct testimony of Oncor witness Mr. Fease, the 2052 Notes carry a slight interest rate premium over existing market rates in order to incent debt holders to exchange the existing debt for the longer term notes. Oncor received no proceeds from the exchange and the exchange transaction was accounted for as a debt modification per US GAAP because, even though the maturity date and interest rate changed, the face value of the debt outstanding did not change. In addition, because debt with a higher coupon rate was replaced with debt with a relatively lower coupon rate, Oncor recognized a gain on the reacquired debt. The unamortized portion of the gain on reacquisition of debt is being amortized and flowed back to customers over the life of the related debt. Similarly, because of the interest rate premium over existing market rates described above, Oncor also recognized a discount to the face value of the bonds at the closing date. This bond discount is also being amortized over the life of the related debt and offsets the recognized gain amortization.

Q. HOW ARE THE DEBT REACQUISITION COSTS REGULATORY ASSET AND THE UNAMORTIZED GAIN ON REACQUISITION OF DEBT REGULATORY LIABILITY REFLECTED IN THIS FILING?

A. As shown in RFP Schedules II-C-2.4 and II-C-2.4a, the net regulatory asset/liability balance is netted with the proceeds from debt financing in determining the percentage of the Company's capital structure arising from debt financing. Similarly, the amortization of the net regulatory asset/liability balance is factored into the determination of the average cost of debt. Consistent with historical treatment in Docket Nos. 35717, 38929, and 46957, as well as FERC USOA guidance (see General Instruction No. 17), the debt reacquisition costs regulatory asset and gain on reacquisition of debt regulatory liability are being amortized over the lives of the extinguished debt.

4. Unrecovered AMS Costs

Q. PLEASE DESCRIBE THE UNRECOVERED AMS COSTS REFLECTED IN ONCOR'S 2021 TEST-YEAR-END BALANCES OF REGULATORY ASSETS AND LIABILITIES.

A. Effective with the implementation of rates pursuant to the Docket No. 46957 rate proceeding, Oncor ceased recovering AMS charges through a separate surcharge with costs now being recovered through base rates. As reflected in the settlement and Order in Docket No. 46957, there existed an under-recovered balance of AMS costs totaling $205 million at December 31, 2016, that the Company began amortizing over a ten-year period beginning in November 2017 (*i.e.*, $20,475,713 annual amortization). In addition, as determined in Oncor's final AMS Reconciliation proceeding in Docket No. 49721, an additional $6.4 million of under-recovered AMS costs were realized between January 1, 2017 and November 26, 2017. As of the 2021 test-year-end, there remains an unrecovered balance of $127.3 million of AMS costs reflected in Oncor's regulatory assets.

In addition, certain customer education and employee severance costs totaling $584,070 associated with the AMS program remain unrecovered at the 2021 test-year-end, as well as $80,080 in unrecovered rate case expenses associated with previous AMS-related rate cases. Further, as reflected in the Order (see Ordering Paragraph No. 3) in the Docket No. 49721 final AMS reconciliation proceeding, the expenses of that reconciliation proceeding were to be deferred as a regulatory asset and subsequently reviewed in the Company's next base-rate-case.

Other than the 2021 test-year-end balance of $178,483 Docket No. 49721 deferred reconciliation proceeding expenses addressed in Company witness Mr. Robert A. Schmidt's direct testimony, all other under-recovered AMS-related costs have been reviewed and approved for recovery (see also Finding of Fact No. 48 of the Docket No. 46957 Order). As I discuss later in my testimony, I am proposing that these costs be recovered over a five-year period.

5. Energy Efficiency Performance Bonus

Q. PLEASE DISCUSS ONCOR'S ENERGY EFFICIENCY PERFORMANCE BONUS REGULATORY ASSET BALANCE AT THE 2021 TEST-YEAR-END.

A. As provided in the Order from Docket No. 52178, Oncor was awarded a performance bonus related to exceeding the Company's 2020 energy efficiency program goals. Because there is a lag between the time period that a performance bonus is granted and the period in which it is collected through subsequent EECRF tariff billings, the amount is recorded as a regulatory asset and then amortized during the following year to more closely match the period that the amount is actually being recovered through EECRF billings to rate-payers. Pursuant to 16 TAC § 25.182(e)(7), an energy efficiency performance bonus "shall not be included in a utility's revenues or net income for the purpose of establishing a utility's rates or commission assessment of its earnings." Accordingly, Oncor has not included the unrecovered performance bonus in its determination of rate base. In addition, as shown on line 41 of RFP Schedule II-B-12, Oncor had a $1.4 million under-recovered balance of energy efficiency program costs at the 2021 test-year-end. However, similar to the performance bonus shown on line 32 of RFP Schedule II-B-12, the under-recovery has been excluded from rate base in this proceeding.

6. Wholesale Distribution Substation Service

Q. PLEASE DESCRIBE ONCOR'S REGULATORY ASSET ASSOCIATED WITH WHOLESALE DISTRIBUTION SUBSTATION SERVICE.

A. As reflected in Ordering Paragraph No. 14, the Docket No. 46957 settlement and Order provide that Oncor has been "authorized to establish a regulatory asset to capture the amounts Oncor pays to Sharyland under Sharyland's Wholesale Distribution Substation Service Tariff. However, Oncor is not presently authorized to recover those amounts. Oncor is permitted to seek recovery of those amounts in a future proceeding." Coincident with the 2017 Asset Exchange, Oncor began to realize costs for wholesale distribution substation service ("WDSS") to serve the distribution customers formerly served by SU. Subsequently, in May 2019, the InfraREIT Acquisition resulted in Oncor owning (through Oncor NTU) these former SDTS substation and related assets. Thus, Oncor NTU adopted Sharyland's former WDSS Tariff. Even so, as reflected in the Docket No. 48929 settlement and Order (see Finding of Fact Nos. 73 and 74 and Ordering Paragraph No. 10), Oncor was still not authorized to recover the costs associated with the WDSS and continued to defer the costs in a regulatory asset. At the 2021 test-year-end, the balance of unrecovered WDSS costs totals $75.3 million and is reflected in Oncor's regulatory asset total. I am proposing that these deferred costs associated with WDSS be recovered over a five-year amortization period.

<u>7. Unrecovered Expenses Related to COVID-19</u>

Q. PLEASE DESCRIBE THE REGULATORY ASSET AMOUNTS RELATED TO THE COMPANY'S RESPONSE TO THE STATE OF DISASTER FOR THE CORONAVIRUS DISEASE 2019.

A. In March 2020, in connection with the Governor's disaster declaration related to the COVID-19 pandemic, the Commission issued an Order in Project No. 50664 creating a COVID-19 Electricity Relief Program ("ERP") to aid certain eligible residential customers unable to pay their electricity bills as a result of the pandemic's impacts. As a result, Oncor suppressed its own charges for T&D service to REPs, as well as reimbursed the REPs for energy charges, related to electricity consumption by the eligible residential customers. Over the period of the ERP, Oncor realized $37.8 million of costs associated with the program, including about $0.7 million for third-party administrative costs. To fund the costs of the ERP, the Commission authorized the Company to impose an ERP surcharge at $0.33

per megawatt hour, effective April 1, 2020, and directed ERCOT to provide an interest-free loan to Oncor and certain other T&D utilities. Oncor continued to bill the ERP tariff surcharge until mid-February 2021, at which point it had collected all of its ERP costs. At the time of the ERP tariff cessation, Oncor's regulatory asset reflected a small over-recovery of less than $100,000 that was settled in Oncor's 2021 DCRF filing in Docket No. 51996 and the ERP-related regulatory asset was extinguished.

In addition, the Commission's Order in Project No. 50664 authorized Oncor (and other T&D utilities in the state) to create a regulatory asset to currently defer and then seek future recovery of expenses resulting from the effects of the COVID-19 pandemic. Accordingly, as described in the direct testimony of Oncor witness Ms. Buck, the Company began recording incremental operating expenses resulting from the Company's actions to continue safely providing essential electric delivery service during the ongoing pandemic, including the implementation of our Pandemic Readiness Plan.

At the 2021 test-year-end, the COVID-19 pandemic readiness regulatory asset totaled $34.7 million of incremental costs. Thus, during the 22-month period ended December 31, 2021, Oncor had deferred an average of $9.21 per retail customer related to incremental costs ensuring the safety of Oncor employees and the public during this remarkable period in our state's history. Among other items, significant COVID-19 response costs were realized to: (1) lease additional transportation equipment to provide safe social distancing for field personnel; (2) hire contract labor for resources providing additional security, health screening, and facility disinfection; (3) establish effective remote working sites for non-field personnel; (4) secure adequate personal protection equipment for employees; and (5) compensate employees providing overtime labor related to backfilling jobs for temporarily quarantined employees. As I discuss later in my direct testimony, I am proposing an adjustment to the deferred COVID-19 costs to be recovered and recommend a five-year amortization period.

Q. HAS THE COMPANY MADE ANY ADJUSTMENTS TO THE COVID-19 PANDEMIC READINESS COST REGULATORY ASSET BALANCE AT THE 2021 TEST-YEAR-END?

A. Yes. After the end of the 2021 test-year, it was determined that certain expenditures previously accrued in the COVID-19 pandemic readiness regulatory asset represented normal operating costs, rather than an incremental pandemic-related cost eligible for deferral. Accordingly, these deferred expense amounts totaling about $41,200 have been removed from the COVID-19 pandemic readiness regulatory asset.

8. Power Line Safety Act

Q. PLEASE DISCUSS ONCOR'S REGULATORY ASSET RELATED TO COSTS ASSOCIATED WITH ENHANCED POWER LINE SAFETY PROCESSES, INSPECTIONS, AND REPORTING.

A. During 2019, the Texas Legislature passed the William Thomas Heath Power Line Safety Act ("PLSA"), PURA § 38.102, requiring electric utilities, as well as municipally owned utilities and electric cooperatives, that own or operate overhead T&D assets to report employee training on power line hazard recognition and training programs related to the National Electrical Safety Code ("NESC") for the construction of T&D lines. In addition, utilities that own or operate overhead transmission facilities greater than 60 kilovolts must report the percentage of overhead transmission facilities inspected for compliance with the NESC relating to vertical clearance and the percentage anticipated to be inspected over a five-year period, as also addressed in 16 TAC § 25.97 - Line Inspection and Safety. Further, PURA § 36.066 was added and provides that the costs "incurred by an electric utility to comply with PURA § 38.102 shall be recorded as a regulatory asset for timely recovery in rates established by the commission." At the 2021 test-year-end, Oncor has realized about $7.5 million of costs associated with these enhanced power line safety processes, inspections, training, and reporting. As discussed later in my direct testimony, I am proposing that these deferred PLSA costs be recovered over a five-year amortization period.

Q. HAS THE COMPANY MADE ANY ADJUSTMENTS TO THE PLSA REGULATORY ASSET BALANCE AT THE 2021 TEST-YEAR-END?

A. Yes. After the end of the 2021 test-year, it was determined that an expenditure previously deferred in the PLSA Cost regulatory asset represented a normal operating expense, rather than an incremental cost eligible for deferral. As a result, the $34,165 cost of the expenditure has been removed from the PLSA regulatory asset (see workpaper WP/II-D ADJUSTMENT/58 for additional details).

Q. WILL ONCOR CONTINUE TO INCUR COSTS RELATED TO MEETING THE REQUIREMENTS OF THE PLSA?

A. Yes. As described in the direct testimony of Oncor witness Mr. Speed, Oncor anticipates that the annual O&M cost to accomplish the on-going requirements of PURA § 38.102 will approximate $3.1 million annually. As discussed later in my direct testimony, the Company is making a known and measurable O&M adjustment to reflect the recurring annual costs related to the operating activities and reporting requirements related to the PLSA.

<u>9. Bad Debt Expense</u>

Q. PLEASE DESCRIBE THE REGULATORY ASSET LISTED AS UNCOLLECTIBLE PAYMENTS FROM REPS IN ONCOR'S 2021 SEC FORM 10-K.

A. As prescribed in 16 TAC § 25.107(f)(3)(B), Oncor maintains a regulatory asset for bad debt expense resulting from defaults by REPs on the obligation to pay for electric delivery service. In Docket No. 46957, Oncor's rate base reflected a regulatory asset of $0.8 million related to losses incurred from defaults by REPs. Effective with the November 2017 implementation of rates from Docket No. 46957, Oncor began amortizing the defaulted REP regulatory asset over a three-year amortization period.

Upon full recovery in November 2020, Oncor continued to accrue amounts in rates against the regulatory asset, resulting in a credit balance (*i.e.*, regulatory liability) of approximately $25,000 at the end of 2020. However, the severe winter weather experienced in February 2021 from Winter Storm Uri resulted in the default of several REPs served by Oncor. As a result of the extreme activity during 2021, the deferred total of uncollectible accounts (*i.e.*, defaulted REPs) reflects a regulatory asset balance of almost $8.9 million at the 2021 test-year-end.

Q. HAS THE COMPANY MADE ANY ADJUSTMENTS TO THE 2021 TEST-YEAR-END BALANCE OF UNCOLLECTIBLE PAYMENTS FROM REPS?

A. Yes. Included in the year-end 2021 uncollectible provision reflected in this regulatory asset is the balance of uncollectible non-bypassable wires charges associated with amounts Oncor billed through the Company's Rider NDC – Nuclear Decommissioning Charges for the benefit of subsidiaries of Vistra Corp. related to costs for the future decommissioning of the Comanche Peak electricity generation facility. Oncor has removed the $45,433 of non-collectible Rider NDC charges from the regulatory asset balance, leaving a net requested balance of $8.84 million. In addition, following the 2021 test-year-end, a certain agreement has been reached that provides more likely than not assurance that approximately $485,000 of the uncollectible provision will be recovered. Accordingly, I have made a known and measurable adjustment to reduce the regulatory asset for this subsequent transaction, further reducing the uncollectible balance to about $8.4 million. I am proposing that the Bad Debt Expense regulatory asset be recovered over a five-year period.

<u>10. Rate-Case Expenses</u>

Q. PLEASE ADDRESS THE BALANCES OF ONCOR'S UNRECOVERED RATE-CASE EXPENSES.

A. As discussed in the direct testimony of Oncor witness Mr. Schmidt, Oncor's regulatory asset total at the 2021 test-year-end reflects deferred rate case expenses from six previous proceedings before the Commission, as well as amounts related to this application. Consistent with the settlement and Order in Docket No. 46957, Oncor's previous general base-rate-case (see Ordering Paragraph No. 8), net rate-case expenses totaling about $586,000 incurred after the May 31, 2017 cutoff have been deferred for future recovery. In addition, expenses associated with Oncor's DCRF filings in 2018, 2019, and 2021 (Docket Nos. 48231, 49427, and 51996, respectively) total about $688,000. (Pursuant to the settlement agreement in Oncor's 2020 DCRF case, the Company will not request recovery of rate-case expenses from Docket No. 50734.) Rate-case expenses in Oncor's rate adjustment case related to the effects of the 2017 Tax Cuts and Jobs Act ("TCJA") (Docket No. 48325) of about $334,800, and in the Company's AMS final reconciliation proceeding (Docket No. 49721) totaling approximately $178,000, have also been realized in the 2017 through 2021 time frame.

In addition, as of December 31, 2021, approximately $3.42 million in expenses associated with the present base-rate case had already been realized, resulting in a 2021 test-year-end balance of $5.3 million of rate-case expenses subject to Commission review and approval reflected in regulatory assets. As further addressed in Mr. Schmidt's direct testimony, Oncor expects to incur an estimated total of $6.7 million in rate-case expenses to litigate this case (including the approximately $3.42 million incurred as of the test-year-end and an estimated $700,000 for expenses of municipalities participating in this proceeding).

Q. PLEASE DESCRIBE THE RATE-CASE EXPENSE REGULATORY LIABILITY REFLECTED IN ONCOR'S FILING IN THIS PROCEEDING.

A. In November 2017, Oncor began collecting the rate-case expenses associated with Docket No. 46957 through Rider RCE – Rate Case Expense Surcharge. Rider RCE was in effect for approximately one year and resulted in recovery of all of the pre-cutoff rate case expenses incurred in Oncor's 2017 base-rate-case, as well as an over-recovery of a little more than $254,000. For purposes of the present base-rate-case, this over-collected amount will be netted against the post-cutoff Docket No. 46957 rate case expenses of approximately $586,000 (*i.e.*, net ~$332,000).

Q. PLEASE SUMMARIZE THE NET RATE-CASE EXPENSES REFLECTED IN ONCOR'S PRESENT RATE FILING.

A. Oncor is seeking recovery of $8.23 million for rate-case expenses related to the proceedings described above. The rate-case expense components are shown separately on RFP Schedule II-B-12 and have been functionalized through direct assignment. As reflected in the Company's RFP, a five-year period has been assumed for rate-case expense amortization.

Q. HOW IS ONCOR PROPOSING TO RECOVER THESE RATE-CASE EXPENSE REGULATORY ASSET BALANCES?

A. As described in the direct testimonies of Company witnesses Messrs. Schmidt and Troxle, Oncor is requesting a Rate Case Expense surcharge to recover the rate case expenses over a one-year period. Any over or under-collection will be netted against rate-case expenses incurred for this case after the cutoff period and the net remaining costs will be captured in a regulatory asset to be examined and recovered in a subsequent rate proceeding.

11. Acquisition Regulatory Assets

Q. PLEASE DESCRIBE THE REGULATORY ASSETS THAT THE COMPANY ACQUIRED IN THE 2017 ASSET EXCHANGE AND THE 2019 INFRAREIT ACQUISITION.

A. On July 26, 2017, SU and SDTS filed an unopposed motion in Docket No. 45414 to implement proposed interim rates for service to residential customers in SU's Stanton, Brady, and Celeste ("SBC") divisions, which reflected a residential class retail electric delivery revenue requirement decrease of $3 million on an annual basis for the SBC divisions. SU was permitted to record on its books as a regulatory asset the difference between the money collected under the approved residential interim rates and the amount of money that would have been collected under SU's rates approved in Docket No. 41474. During 2017, SU recorded a regulatory asset for the differential between the approved and interim residential rates. Also during 2017, in approving the 2017 Asset Exchange, the Commission approved "Oncor's recovery of the interim rate regulatory asset related to Sharyland Utilities' residential interim rates approved in Docket No. 45414, but not until the Commission approves the manner in which it will be recovered in a future proceeding" (see Docket No. 47469 Conclusion of Law No. 10). As of the 2021 test-year-end, there was a balance of $627,363 reflected in Oncor's regulatory assets and liabilities related to this interim residential rate differential.

Also, in Docket No. 45414, SU and SDTS proposed to recover costs incurred specifically as a result of the transition of the former SU from the SPP to ERCOT. In the 2019 InfraREIT Acquisition, Oncor acquired the remaining regulatory asset associated with these transition to competition costs previously deferred by SU and SDTS. As of the 2021 test-year-end, there was a balance of about $2.6 million remaining of these unrecovered costs. I am proposing the balances in the interim residential rate differential and the SU/SDTS transition to competition regulatory assets be recovered over a five-year period.

12. Amortization Over-Recovery

Q. PLEASE DISCUSS THE NON-TAX REGULATORY LIABILITY RELATED TO AN OVER-RECOVERY OF AMORTIZATION EXPENSE.

A. In closing the Company's financial records for the year 2021, it was observed that certain intangible assets (capitalized costs of information technology systems and software applications recorded in FERC A303) that were no longer being used in utility operations had not been timely retired from electric plant in service in Oncor's property accounting records. The original book value of these affected intangible assets totaled $55.8 million and primarily reflected systems and applications that should have been retired between mid-2017 and mid-2018. As a result of the non-timely property retirements, Oncor continued to recognize amortization expense on the assets through the closing of the 2021 financial records. To correct the previously recognized amortization expense, a correcting accounting entry was recorded at year-end 2021 to reverse $21.8 million in amortization expense taken on the intangible assets, including almost $5.2 million that had been recorded during the 2021 test-year. Because the total depreciation and amortization expense recognized during the 2021 test-year does not reflect the normal expense that would have been realized, I have provided the adjustment amounts (by year) that net to $16.6 million to Oncor witness Mr. Watson to enable a more accurate analysis of the Company's depreciation and amortization costs. I am proposing that the Amortization Over-Recovery regulatory liability be amortized over a five-year period.

Q. DID THE NON-TIMELY RETIREMENT OF THESE INTANGIBLE ASSETS AFFECT DISTRIBUTION AND TRANSMISSION RATES THAT CURRENTLY ARE IN EFFECT?

A. Yes. A small portion (~$285,000) of the $55.8 million total of intangible assets that were not timely retired have been included in TCOS rates since 2017. The remaining intangible assets affected rates set in Docket No. 46957 to a small degree, but primarily have resulted in DCRF revenues being greater than they appropriately should have been. Accordingly, Oncor recorded a regulatory liability in 2021 to reflect the effect that the non-timely retirements of the property had on the level of amortization expense reflected in distribution rates. At the 2021 test-year-end, Oncor has recognized a regulatory liability totaling $13.5 million related to the net effects on ratepayers of the intangible plant amortization over-recovery, including more than $330,000 of interest charges accrued at the

Commission's applicable annual over-billing rate. This amount has been directly assigned to the TRAN, DIST, and MET functions based on the purpose of the respective intangible assets.

13. Interest Rate Savings

Q. PLEASE DISCUSS THE NON-TAX REGULATORY LIABILITY IDENTIFIED AS INTEREST RATE SAVINGS.

A. The Docket No. 47675 settlement agreement and Order (see Finding of Fact No. 90) provide that Oncor would "provide bill credits to electric delivery rates for ultimate credits to customers in an amount equal to 90% of any interest rate savings achieved until final rates are set in the next Oncor base-rate case filed after Docket No. 46957." Since the close of the transaction approved in Docket No. 47675, Oncor has refunded interest rate savings credits from time to time to ultimate customers. Regardless, to the extent such interest rate savings are not already reflected in rates, the Company continues to accrue additional credits as a regulatory liability. Upon implementation of final rates in this proceeding, Oncor will file an additional request to refund the final balance of interest rate savings to utility customers.

14. Other Non-Tax Regulatory Assets and Liabilities

Q. PLEASE DESCRIBE THE REMAINING NON-TAX REGULATORY ASSETS AND LIABILITIES REFLECTED IN ONCOR'S FINANCIAL BOOKS AND RECORDS AT THE 2021 TEST-YEAR-END.

A. As reflected in RFP Schedule II-B-12, there are a number of additional non-tax regulatory assets and liabilities that are not separately disclosed in Oncor's 2021 SEC Form 10-K.

Rocky Mound Series Compensator – In Docket No. 37902, Oncor was awarded the 50% reactive compensation facilities for the Clear Crossing – Willow Creek 345 CREZ transmission line, to be installed at Oncor's Rocky Mound station location. After incurring more than $1.5 million in construction costs, including site preparation and engineering planning and design work, in order to diligently pursue placing the facilities in-service on the Commission's designated timeline, ERCOT requested in 2012 that construction activity related to the Rocky Mound series compensation facilities be suspended. Ultimately, based on studies undertaken by Oncor, ERCOT determined that the Rocky Mound series compensation facilities should not be built. Accordingly, pursuant to USOA instructions for FERC A182.2 (*Unrecovered Plant and Regulatory Study Costs)*, Oncor transferred the investment from CWIP to a regulatory asset in December 2017 and, jointly with ERCOT, notified the Commission in January 2018 that the facilities would not be built. I am proposing that the unrecovered construction and regulatory study costs be recovered over a five-year period.

Workers Compensation – The amount of $8.1 million that is reflected in RFP Schedule II-B-12 as a "Workers Compensation" regulatory asset relates to estimated future amounts associated with continuing care and medical costs of employees with serious bodily injuries sustained in the performance of job responsibilities. The Company has also recorded a corresponding liability reflecting the estimated future payment of the care and treatment costs. Because the workers compensation regulatory asset and the corresponding liability offset one another, a known and measurable adjustment to remove the regulatory asset balance from Oncor's 2021 test-year-end rate base has been reflected on line 34, column (g), of RFP Schedule II-B-12.

Power Restoration After Widespread Power Outage – As described previously in my direct testimony (see Sections IV.5. and IV.6), recent legislation allows T&D utilities to lease and operate facilities that provide temporary emergency electric energy and to capitalize facilities with a lead time of at least six months to aid in the restoration of power to the utility's distribution customers following a widespread power outage. As provided in PURA § 39.918(i), a T&D utility may "defer for recovery in a future ratemaking proceeding the incremental operations and maintenance expenses and return, not otherwise recovered in a rate proceeding, associated with the leasing or procurement, ownership, and operation of the facilities." At the 2021 test-year-end, Oncor had recognized a regulatory asset totaling $26,088 related to these power restoration activities.

Unbilled Revenue Deferral – As described previously in my direct testimony (see Section III.C.5.), the ratemaking mechanisms associated with certain reconcilable costs disregard unbilled revenues. Accordingly, as reflected on lines 41, 43, and 44 of RFP Schedule II-B-12, I have made a known and measurable adjustment to remove the non-tax regulatory liability balances related to the deferral of unbilled revenues related to TCRF, EECRF, and AMS.

15. Summary of Net Non-Tax Regulatory Assets and Liabilities

Q. PLEASE SUMMARIZE YOUR DIRECT TESTIMONY REGARDING NON-TAX REGULATORY ASSETS AND LIABILITIES.

A. As shown on RFP Schedule II-B-12 [see line 53, columns (h) and (v)] line 53), Oncor has included approximately $979 million in net non-tax-related regulatory assets and liabilities in the calculation of the Company's $18.8 billion rate base at the 2021 test-year-end. Other than the deferred incremental COVID-19 costs and the regulatory assets and liabilities related to pensions and OPEBs, the costs reflected in Oncor's rate base have been functionalized based on direct assignment. As reflected on RFP Schedule II-B-12, approximately 6.8% of the net non-tax regulatory assets and liabilities have been assigned or allocated to TRAN, 76.4% to DIST, 15.1% to MET, and 1.7% to TDCS.

F. Working Capital

Q. PLEASE PROVIDE AN OVERVIEW OF THE WORKING CAPITAL COMPONENTS THAT ONCOR IS INCLUDING IN ITS RATE BASE CALCULATION.

A. Pursuant to 16 TAC § 25.231(c)(2)(B), utilities are permitted to include, within their invested capital balance (*i.e.*, rate base), reasonable inventories of M&S, prepaid operating expenses, and an allowance for cash working capital ("CWC"). As described in Company witness Mr. Thenmadathil's direct testimony, the Company has included a reasonable working capital allowance of approximately $193.5 million in its 2021 test-year-end rate base.

As summarized in column (e) of RFP Schedule II-B, the Company's requested working capital allowance is comprised of about $115.2 million of prepaid operating costs, $152 million in M&S inventories, and a negative $73.5 million allowance of CWC. Further, as shown on RFP Schedule II-B-11, the balance of less than $0.2 million of customer deposits reflects the final component of Oncor's known and measurable working capital balances included in Oncor's 2021 test-year-end rate base. I have included these amounts provided by Company witness Mr. Thenmadathil in the overall summary of Oncor's rate base at December 31, 2021, as presented in Schedule II-B (Summary of Rate Base) of Oncor's RFP.

1. Materials and Supplies

Q. PLEASE EXPLAIN THE RATE BASE WORKING CAPITAL COMPONENT IDENTIFIED AS MATERIALS AND SUPPLIES.

A. Oncor purchases and maintains inventories of M&S for use in utility construction activities and operation and maintenance purposes in FERC A154 and records undistributed stores expense to FERC A163, the latter of which reflects the costs of supervision, labor, and expenses (including purchasing, storage, handling, distribution, and applicable sales and use taxes) incurred in the operation of general M&S storerooms. Company witness Mr. Thenmadathil has provided me with the functionalized 13-month average ending balance of the cost of materials and supplies (including the balance of undistributed stores expense and taxes) reflected in RFP Schedule II-B-8. As provided in 16 TAC § 25.231(c)(2)(B)(i), the 13-

month average ending balance represents a reasonable working capital allowance of inventories of M&S held for purposes of permitting efficient operation of the Company in providing normal electric utility service.

2. Prepayments

Q. PLEASE DESCRIBE THE WORKING CAPITAL RATE BASE COMPONENT IDENTIFIED AS PREPAYMENTS.

A. Oncor records prepayments of certain operating obligations to municipalities, vendors, industry associations, or other suppliers of goods and services when the payment occurs, but the underlying benefit of the prepayment asset is not fully consumed until a future accounting period. Such prepayment amounts subsequently are expensed to an appropriate operation, maintenance, tax, or other expense account on a systematic basis (*e.g.*, straight-line) over the benefit period covered by the initial payment.

Company witness Mr. Thenmadathil has provided me with the functionalized 13-month average ending balance of the cost of prepayments reflected in RFP Schedule II-B-10. As provided in 16 TAC § 25.231(c)(2)(B)(ii), the 13-month average ending balance represents a reasonable working capital allowance of prepayments incurred for purposes of permitting efficient operation of the Company in providing normal electric utility service.

3. Cash Working Capital

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

A. As required by 16 TAC § 25.231(c)(2)(B)(iii)(IV), Oncor has conducted a lead-lag study to determine a reasonable allowance for CWC. As described in his direct testimony, Company witness Mr. Thenmadathil has provided me with the amount of CWC to be included in Oncor's 2021 test-year-end rate base, as shown in RFP Schedule II-B-9, as well as the functionalization of the CWC allowance based on the functionalization factor TOMXFP (*i.e.*, Total O&M Expense, Excluding Fuel and Purchased Power) provided in RFP Schedule II-F: Functionalization Factors.

4. Customer Deposits

Q. PLEASE DISCUSS THE CUSTOMER DEPOSITS COMPONENT OF ONCOR'S 2021 TEST-YEAR-END RATE BASE.

A. As described in Company witness Mr. Thenmadathil's direct testimony, substantially all of the liability balance of Customer Deposits recorded in FERC A235 relates to refundable customer advances for construction activities that are short-lived. The adjusted balance of approximately $0.2 million of Customer Deposits shown on RFP Schedule II-B-11 reflects Company witness Mr. Thenmadathil's recommendation of the balance of customer deposits expected to exist during the period when rates set in this proceeding are in effect. These refundable customer deposit amounts are included (as a reduction) in the overall determination of the Company's total of invested capital. Further, because the customer deposits are recorded within the function affected, the amounts can be directly assigned to the respective business functions.

G. Other Net Rate Base Components

1. Liability in Lieu of Deferred Income Taxes

Q. PLEASE ADDRESS THE COMPANY'S LIABILITY IN LIEU OF DEFERRED INCOME TAXES AND ITS REGULATORY TREATMENT IN THE DETERMINATION OF ONCOR'S NET RATE BASE.

A. A significant reduction factoring into the determination of Oncor's net rate base is the balance of accumulated reserve for deferred income taxes, which are recorded as "liability in lieu of deferred income taxes" for external reporting (see section III.C.1. earlier in my direct testimony). As explained in Company witness Ms. Clutter's direct testimony, the Company's ability to defer income tax-related payments pursuant to provisions of the Internal Revenue Code, as amended, and federal tax regulations (*e.g.*, accelerated tax depreciation of long-lived assets), provides a benefit to Oncor's ratepayers, as such deferrals provide a source of cost-free capital to finance components of the Company's rate base. Accordingly, as directed by 16 TAC § 25.231(c)(2)(C)(i), Oncor's rate base reflects the net balance of ADIT assets and liabilities related to the net assets included in the rate base. At the 2021 test-year-end, RFP Schedule II-B (see line 19) reflects a reduction of the $2,348 million adjusted ADIT balance provided to me by Oncor witness Ms. Clutter, who also provided the functionalization of the amount.

<u>2. Excess Deferred Taxes</u>

Q. WHAT IS EXCESS DEFERRED TAXES, AND HOW DO THEY AFFECT ONCOR'S DETERMINATION OF RATE BASE?

A. As also addressed in Oncor witness Ms. Clutter's direct testimony, excess deferred taxes arose from the passage of the TCJA, enacted by the federal government in December 2017. The most significant TCJA change impacting the Company is the reduction of the corporate federal income tax ("FIT") rate from 35% to 21%. As a consequence, the existing ADIT liability at the time of the TCJA enactment was re-measured based on the effects of the change in the FIT rate, resulting in a $1.6 billion decrease in the balance of Oncor's liability in lieu of deferred income taxes, offset by a corresponding creation of the Company's Excess Deferred Taxes regulatory liability. Similar to the ADIT balance described above, the Excess Deferred Taxes regulatory liability balance continues to represent current cost-free capital and serves to reduce the determination of the Company's utility rate base. Accordingly, at the 2021 test-year-end, RFP Schedule II-B-12 (line 78) reflects a net credit balance of $1,139 million identified as "Total Tax-Related Regulatory Assets/(Liabilities)", representing the unamortized balance of the Excess Deferred Taxes amount provided to me by Company witness Ms. Clutter, who also provided the functionalization of the amount.

H. Summary of Test-Year-Ending Balance of Rate Base

Q. PLEASE PROVIDE A SUMMARY OF THE COMPANY'S ADJUSTED BALANCE OF RATE BASE THAT ONCOR IS REQUESTING IN THIS PROCEEDING.

A. As shown in column (e) of RFP Schedule II-B: Rate Base by Function, the Company's adjusted Net Plant in Service total (shown on line 8) sums to $21,085 million at the 2021 test-year-end, reflecting $10,503.7 million directly assigned or allocated to the TRAN function [see column (i)] and $10,581.6 to DIST and other retail functions [see columns (j) through (n)]. Further, as shown on line 23 of RFP Schedule II-B [see column (e)], Oncor's total rate base (net) sums to $18,816 million at December 31, 2021, reflecting the Company's five-year growth of approximately 71% over the December 31, 2016 adjusted rate base of $10,992 million level in the Settlement Agreement and Order in Docket No. 46957. The direct testimonies of Company witnesses Ms. Ellen Lapson, Mr. Dylan W. D'Ascendis, and Mr. Fease address Oncor's capitalization structure and costs of equity and long-term debt, yielding the Company's weighted average requested rate of return of 7.05 percent. Applying Oncor's requested rate of return to its 2021 test-year-end net rate base produces a consolidated required return of $1,326.5 million for Oncor's business functions, as shown on line 27 of RFP Schedule II-B [see column (e)].

V. <u>DESCRIPTION AND FUNCTIONALIZATION OF COST OF SERVICE</u>

A. Test-Year Level and Functionalization of O&M Expenses

Q. PLEASE PROVIDE AN OVERVIEW AND DESCRIPTION OF ONCOR'S O&M EXPENSES.

A. As reflected in Oncor's 2021 SEC Form 10-K, the Company recognized more than $2,022 million of O&M expense during the 2021 test-year, including $1,039 million of third-party wholesale transmission service. As detailed in RFP Schedules II-D-1 and II-D-2, Oncor's functionalized regulated actual gross O&M expense totals $2,560 million. The primary components of the difference between the O&M reflected in the 2021 SEC

Form 10-K and the RFP are related to inter-company costs that are eliminated in the Company's consolidated financial statements. Most notable among the difference components between the consolidated net O&M level and the gross O&M amounts reflected in the RFP are the affiliate transmission matrix costs billed to Oncor's retail distribution function from Oncor's legacy transmission function ($398 million) and Oncor NTU ($80 million). The remaining $60 million of the gross amounts reflected in the RFP O&M expense summary is primarily related to reclassification of recoverable non-service costs related to pension and OPEB costs that reflect current operating expense (see earlier discussion on the accounting for non-service costs of Oncor's pension and OPEB plans in Section III.C.4.). As discussed below, the Company's gross annual O&M expense level, as adjusted for known and measurable changes, totals approximately $2,794 million.

The FERC USOA provides guidance for recognition of O&M expenses in one of two primary cost classifications. The first represents direct (*i.e.*, function-specific) expenses associated with the on-going operations of utility operations and the second reflects indirect expenses, generally referred to as administrative and general ("A&G") costs. Included in both classifications are costs related to labor, including employee benefits, contractor expenses, materials and supplies, transportation expenses, rental charges, amortization of prior period deferred expenditures, and other miscellaneous O&M expenses with activities necessary to provide transmission, transformation, delivery, measurement, and billing of electric energy to Oncor's utility customers.

Q. PLEASE SUMMARIZE THE ACCOUNTING FOR DIRECT O&M COSTS RELATED TO ONCOR'S UTILITY OPERATIONS.

A. The USOA provides specific direct O&M that explicitly describe activities related to Oncor's specific utility functions. As shown in my Exhibit WAL-2, the USOA organizes the functional O&M costs within the following series of accounts:

Account Numbers	Account Number Description
560 through 567	Transmission Operation Expenses
568 through 574	Transmission Maintenance Expenses
580 through 589	Distribution Operation Expenses
590 through 598	Distribution Maintenance Expenses
901 through 905	Customer Accounts Expenses
906 through 910	Customer Service and Informational Expenses
911 through 917	Sales Expenses

In general, operating expenses recorded in these direct O&M accounts can be directly assigned to a utility function based solely on the FERC account in where the costs have been recognized.

Q. PLEASE SUMMARIZE THE INDIRECT (ADMINISTRATIVE AND GENERAL) O&M COSTS RELATED TO ONCOR'S UTILITY OPERATIONS.

A. O&M costs characterized as A&G reflect expenditures that support the Company's utility operations, although they are not directly associated with the actual transmission, distribution, metering, billing, or other direct electricity delivery activities. The FERC USOA accounts 920 through 933 reflect A&G Operation Expenses and account 935 encompasses Maintenance Expenses related to general plant. The key components of these indirect costs reflect A&G salaries, outside services employed (*e.g.*, outside legal counsel), property and liability insurance (including self-insurance), employee pensions and benefits, and rents and maintenance of general office equipment and facilities.

Q. PLEASE PROVIDE A DESCRIPTION OF THE FUNCTIONALIZATION OF ONCOR'S A&G EXPENSES RECOGNIZED IN ACCOUNTS 920 THROUGH 935.

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

A portion of the Company's A&G costs, however, must be assigned to a business function based on an appropriate cost driver or other functionalization factors. Cost drivers represent a measurable event or quantity that influences the level of costs incurred and that can be directly traced to the origin of the indirect costs themselves. An example of such costs would be employee benefits, whereby the direct labor amount is a "cost driver" that influences the level of the indirect costs of employee benefits. Finally, those A&G costs that cannot be directly assigned or allocated based on a readily identifiable cost causative driver are allocated through the use of the Commission-approved factors contained in the instructions for RFP Schedule II-F. Additional discussion regarding the functionalization of Oncor's O&M expenses is provided in the following sections of my direct testimony.

1. Transmission O&M Expenses

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

A. The majority of the Company's direct transmission O&M costs, recorded in transmission FERC accounts 560 through 574, relate to the on-going operation and maintenance of Oncor's high-voltage transmission system (facilities with voltages equal to or greater than 60 kV). In accordance with 16 TAC § 25.192(c)(1), costs associated with maintenance of load-serving equipment located in transmission switching stations is charged to transmission O&M accounts, but has been functionalized as distribution expense for purposes of this filing. A listing of the transmission account numbers and the work activities performed and recorded to O&M expense by the transmission business unit for each transmission FERC account is contained in my workpaper WP/II-D/Functionalization. The workpapers reflect the assignment of each transmission O&M account and related costs to the appropriate business function based on the direct assignment of costs through examination of work activities that are recorded by the transmission business unit to the accounting records of the Company.

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

A. The transmission business unit utilizes a functionalized Dept ID code, representing a specific business organization or department (*i.e.*, "cost centers"), to record its O&M costs. In addition, the transmission business unit further records its O&M costs with an activity code that further describes the various work activities performed by the transmission organization/department. By utilizing the combination of the FERC O&M account, Dept ID, and activity code recorded for each transmission charge, costs can be more narrowly defined below the FERC account level of detail. As an example, FERC A570 is charged for the costs of the Company's transmission substation equipment maintenance. Each charge to this account on the books and records of Oncor is further identified to the transmission business unit organization that is responsible for incurring the cost through a Dept ID code. Additionally, an activity code representing various work processes, such as "high-voltage breaker maintenance," is coded on the financial transaction, thus allowing much greater information to be obtained about the transaction.

Q. PLEASE DESCRIBE THE UNIQUE NATURE OF ACCOUNTING FOR COSTS RELATED TO THE TRANSMISSION O&M EXPENSE RECORDED IN FERC A565.

A. The USOA classifies FERC A565 (*Transmission of Electricity by Others)* as a transmission operating expense. These expenses relate solely to the cost of network transmission services for the delivery of high-voltage electricity to the local distribution network power grids, where the power can then be converted to distribution voltages and delivered to customers. In the ERCOT market, a distribution utility company pays for the transmission delivery services to both its affiliate transmission business and to other transmission service providers operating in the market. Distribution revenues are collected to recover these costs and are adjusted twice annually for changes in costs through a reset of TCRF rates. Accordingly, FERC A565 has been functionalized as a distribution operating expense in order to properly match the cost of transmission services that correspond to Oncor's distribution customers with the distribution TCRF revenues that are collected from REPs for the provision of retail transmission and distribution delivery services to the customers in Oncor's service area.

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

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

2. Distribution O&M Expenses

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

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

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

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

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

3. Customer Accounts Expenses

Q. HOW HAVE THE COMPANY'S CUSTOMER ACCOUNTS O&M COSTS BEEN FUNCTIONALIZED FOR PURPOSES OF THIS FILING?

A. FERC accounts 901 through 905 are charged for the maintenance of customer records and revenue recovery activities. Examples of these costs include (1) preparation of customer billings; (2) operating and maintaining customer billing systems; (3) processing and recording payments and collections to customer accounts; (4) disconnecting and reconnecting service; and (5) collecting meter readings and computing energy consumption. FERC A901 *(Supervision)* is charged for the cost of general supervision and direction of distribution customer accounting activities. This account was directly assigned to the TDCS function. FERC A902 *(Meter Reading Expenses)* is charged for the costs of obtaining meter reading, meter re-reads, meter connects and reconnects, and general supervision, routing and scheduling of measurement activities. I have directly assigned these costs to the metering business function in accordance with 16 TAC § 25.341. FERC A903 *(Customer Records and Collection Expenses)* is charged for: (1) certain meter-related activities; (2) costs associated with distribution revenue recovery activities; and (3) distribution billings and collections, maintenance of account records, and the receiving, processing, and recording of REP payments. Costs recorded to FERC A903 that are associated with meter-related activities have been directly assigned to the metering business function. As shown in my workpaper WP/II-D/Functionalization, the remainder of the costs recorded in FERC A903 has principally been assigned to the TDCS function. Costs recorded to FERC A904 *(Uncollectible Accounts)* have been directly assigned to the TDCS function. Generally, these costs relate to miscellaneous account receivable charge-offs. FERC A905 (*Miscellaneous Customer Account Expenses*) was not used by the Company during the test-year. The functionalized costs and assignment methodology for customer accounts expense is contained in my workpaper WP/II-D/Functionalization.

4. Customer Service and Informational Expenses

Q. HOW HAVE THE COMPANY'S CUSTOMER SERVICE AND INFORMATIONAL EXPENSES O&M COSTS BEEN FUNCTIONALIZED FOR THIS FILING?

A. FERC accounts 906 through 910 are charged for the costs of labor, materials, and other costs incurred in providing instruction or assistance to electric consumers, the object of which is to encourage safe, efficient, and economical use of electric energy. FERC A908 *(Customer Assistance Expenses)* is charged for costs associated with energy efficiency programs. As addressed later in my direct testimony, the 2021 test-year costs associated with Oncor's energy efficiency programs are outside the scope of this proceeding and have been removed from the Company's requested cost of service. In addition, certain costs associated with economic and community development activities have been assigned to the TDCS function. FERC A910 *(Miscellaneous Customer Service and Information Expenses)* was mostly assigned to the TDCS function. The Company's requested cost of service includes no amounts related to FERC accounts 906, 907, and 909. The functionalization and cost assignment methodology for each Customer Service and Information account is contained in my workpaper WP/II-D Functionalization.

5. Sales Expenses

Q. DID ONCOR INCUR ANY DIRECT O&M COSTS RECORDED TO SALES EXPENSE DURING THE 2021 TEST-YEAR?

A. No. FERC accounts 911 through 917 are charged for certain activities labeled "Sales Expenses" in the FERC Uniform System of Accounts. Oncor did not incur any of these costs during the test-year.

6. Administrative and General Expenses

Q. PLEASE DESCRIBE THE PROCESS TO FUNCTIONALIZE ONCOR'S A&G SERIES OF INDIRECT O&M ACCOUNTS?

A. The A&G series of FERC accounts 920 through 935 are charged for the costs of indirect administrative salaries, office equipment and supplies, outside professional services, and other miscellaneous expenses that are generally considered support activities or indirect costs. Unlike the direct series of O&M accounts that I have previously discussed, A&G account numbers provide little specific identification as to the functionalization of the recorded costs. Therefore, the costs recorded to this series of accounts must be analyzed using other recorded accounting information for the business function. As I have discussed previously, the Company records its costs to a unique functionalized Dept ID code representing the functionalized transmission and distribution business unit organizations or, as frequently referred to, "cost centers." These cost centers are functionalized groupings of employees and activities, and their corresponding Dept ID is charged for the labor, materials and supplies, employee benefits, and other costs that the organization directly or indirectly is responsible for incurring. As an example, the Company's transmission engineering organization is assigned its own unique Dept ID code, which differs from the Dept ID code of the distribution engineering organization. The transmission engineering Dept ID code is charged for all costs of its employee wages, pensions and benefits, office and computer leases, and other direct and indirect costs that are utilized for the engineering, mapping, and design activities of the transmission business unit. By examining Dept ID codes, the appropriate amount of expense associated with the transmission engineering organization can then be readily identified and, therefore, directly assigned to the appropriate business function. Dept ID codes allow the Company to trace recorded amounts to the responsible functionalized organization that originated or incurred the A&G cost.

Q. IS THE PROCESS OF USING THE DEPT ID CODE TO DIRECTLY ASSIGN COSTS RECORDED TO THE A&G SERIES OF FERC ACCOUNTS ADEQUATE FOR ALL INDIRECT O&M COSTS?

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

Q. PLEASE SUMMARIZE THE FUNCTIONALIZATION PROCESS USED TO ASSIGN COSTS RECORDED TO THE A&G O&M EXPENSES.

A. RFP General Instruction No. 11(a) requires that all costs be directly assigned to the appropriate function to the fullest extent possible.

Therefore, I have used the Company's Dept ID codes as a means to determine the assignment of costs to the organization that is responsible for incurring the expense. Accordingly, the source for all costs recorded by Dept ID code is the books and records of the Company. However, for those A&G costs that I could not directly assign through the use of a Dept ID code or other cost-causation principle, I have relied upon the Commission-approved allocation factors contained in the RFP instructions for Schedule II-F.

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

B. Adjustments to Operation and Maintenance Expenses

1. Overview

Q. PLEASE PROVIDE AN OVERVIEW OF THE O&M ADJUSTMENTS THAT ONCOR IS PROPOSING IN THIS PROCEEDING.

A. Oncor proposes to increase its test-year level of consolidated O&M expense by approximately $99 million, excluding changes in the cost of wholesale transmission service. This increase over the test-year level of $983 million of Operation and Maintenance Expense disclosed in Oncor's Statements of Consolidated Income in the 2021 SEC Form 10-K is principally driven by recovery of historically incurred costs that have been deferred because existing rates do not provide sufficient revenues to adequately cover the currently incurred cost levels. To minimize further shifting of cost recovery between generations of utility customers, the on-going annual costs need to be reflected in current rates to prevent future under-recovery of the reasonable and necessary costs associated with providing electric delivery service. Further, known and measurable changes driven by the Company's expanding work force and the economic factors (*e.g.*, evolving compensation philosophy and practices, as well as general wage increases, as described in the direct testimony of Oncor witness Ms. Angela Y. Guillory) affecting operating costs must also be addressed. In addition, increased labor costs and other economic factors are affecting certain Oncor vendors and contractors. Partially offsetting these known and measurable adjustments for under-recovered costs and other O&M expense pressures is a net reduction in the annual costs associated with Oncor's pension and OPEB plans. Finally, Oncor's known and measurable adjustments reflect a significant number of proposed adjustments to remove non-recurring costs or to normalize 2021 test-year levels to the annualized recurring value.

<u>2. Wholesale Transmission Service</u>

Q. PLEASE PROVIDE A SUMMARY OF THE INCREASE IN WHOLESALE TRANSMISSION SERVICE EXPENSE.

A. During the 2021 test-year, Oncor recognized $1,039 million of third-party wholesale transmission service O&M expense in the Company's financial statements. The expense is a function of the various network transmission service ("NTS") rates of the wholesale transmission service providers within ERCOT and Oncor's retail load for the 15-minute interval that is coincident with the ERCOT system coincident peak demand for the months of June, July, August, and September in the preceding calendar year ("4CP"). As discussed above (see Section V.A.), reflecting the affiliate NTS expense of $479 million ($398.1 million from legacy Oncor and $80.4 million from Oncor NTU) provides the 2021 test-year level of $1,517 million reflected in FERC A565 *(Transmission of Electricity by Others)* shown in column (g) of line 8 on RFP Schedule II-D-1. Oncor is requesting a known and measurable adjustment to FERC A565 of $135 million to reflect increased costs for wholesale transmission service expense.

Q. PLEASE DESCRIBE THE KNOWN AND MEASURABLE ADJUSTMENT RELATED TO WHOLESALE TRANSMISSION SERVICE.

A. During the 2021 test-year, Oncor's wholesale transmission service expense reflected the Company's 2020 4CP value of 24,930.5 megawatts ("MW"), which represented about 35.14% of the total ERCOT 4CP value of 70,937.6 MW, including the retail load of LP&L (see "Matrix B Revised Final" from Docket No. 51612). For 2022, the Company's 4CP value from 2021 is 25,945.1 MW, reflecting an increase of more than 4.0 percent. The 2021 4CP value for ERCOT also reflects an increase to 72,490.3 MW or about 2.2 percent. In addition, the NTS rates of several third-party wholesale transmission service providers increased notably during the 2021 test-year and continue to increase throughout the first several months of 2022. As described above, both these factors (*i.e.*, increased NTS rates and growth in 4CP) contribute to the increase in the wholesale transmission service expense that Oncor realizes.

Q. HAS ONCOR INCLUDED THESE POST-TEST-YEAR INCREASES IN THIRD-PARTY NTS RATES IN ITS KNOWN AND MEASURABLE ADJUSTMENT FOR WHOLESALE TRANSMISSION SERVICE COSTS?

A. Yes. However, the recovery of these wholesale transmission service costs from third-parties, as well as Oncor's retail load share of the Company's own NTS rate (*i.e.*, 35.79% based on Oncor's 2021 4CP value of 25,945.1 MW as compared to the total ERCOT 2021 4CP value of 72,490.3 MW) is accomplished through the revenues billed through the reconcilable TCRF mechanism that involves rate adjustments twice annually. Accordingly, ignoring the effects of this rate filing on Oncor's own NTS rate, these incremental wholesale transmission service rates are presently being addressed in the calculation of current TCRF rates and the over/under-recovered wholesale transmission service expense regulatory asset/liability.

3. Energy Efficiency Program Costs

Q. HAS ONCOR INCLUDED THE COSTS OF THE COMPANY'S ENERGY EFFICIENCY PROGRAM IN THIS RATE PROCEEDING?

A. No. Oncor recovers the expenses of the Company's energy efficiency programs through its EECRF tariff, which is updated annually in a separate regulatory proceeding. Pursuant to 16 TAC § 25.182, Oncor's current EECRF rates went into effect on March 1, 2022 and reflect annual program costs of almost $49.7 million, as well as the recovery of $2.9 million of previously under-recovered energy efficiency costs and third-party evaluation, measurement, and verification expenses (see PUC Docket No. 52178). Because these costs are recovered through a separate rate mechanism, it is appropriate to remove the test-year level of $46.3 million from O&M in this proceeding in order to prevent a duplicate request for recovery. Accordingly, as summarized on my workpaper WP/II-D ADJUSTMENT/2, an adjustment to remove $46,329,309 of O&M expense from FERC A908 has been made in this filing.

4. Self-Insurance Reserve

Q. PLEASE DESCRIBE THE KNOWN AND MEASURABLE O&M ADJUSTMENTS RELATED TO THE COMPANY'S SELF-INSURANCE RESERVE.

A. As described in the direct testimony of Oncor witness Mr. Wilson, Oncor's rates should reflect an allowance of $122.2 million annually to meet the current costs associated with the Company's self-insured property and liability losses. Presently, Oncor's rates only reflect $75.0 million annually to cover the current losses subject to recognition in the Company's self-insurance reserve. Accordingly, the adjusted O&M level requested in this proceeding reflects a known and measurable increase of $47.2 million annually to reflect this more comprehensive self-insured loss provision, as shown on workpaper WP/II-D ADJUSTMENT/60. To the extent that average annual self-insured losses differ from the annual provision, a regulatory asset/liability balance will continue to be recorded. Thus, utility ratepayers benefit from periods where actual losses are less than the annual provision.

In addition, the Settlement and Order in Docket No. 46957 provided for a ten-year recovery and amortization period for the $426.4 million under-recovered balance of self-insured losses existing at December 31, 2016, resulting in an annual recovery of $42.6 million. As described earlier in my direct testimony (see Section IV.E.2.), the under-recovered balance has grown to about $588.5 million, reflecting $223.3 million of the December 31, 2016 balance previously reviewed costs plus an additional $365.2 million in under-recovered property and liability losses in the five-year period ended December 31, 2021. Based on the five-year amortization period proposed in this proceeding, the annual O&M associated with recovering the under-recovered losses totals $117.7 million and represents an adjustment increase of $75.1 million over the current $42.6 million level. For additional information concerning the recovery of historical self-insurance reserve losses, please see my workpapers WP/II-D ADJUSTMENT/44 (pre-2016 losses) and WP/II-D ADJUSTMENT/45 (post-2016 losses).

Q. HAS COMPANY WITNESS MR. WILSON PROPOSED ADDITIONAL ADJUSTMENTS THAT WOULD AFFECT THE COMPANY'S SELF-INSURANCE PROGRAM COSTS?

A. Yes. Company witness Mr. Wilson recommends that Oncor establish a target reserve surplus balance of $267.5 million for the self-insurance program to "make an actuarially sound provision for coverage of the self-insured losses" "that are expected to result from a once-every-25 year loss". The Company agrees with Mr. Wilson that such a surplus reserve is beneficial and will help smooth the significant cash flow requirements of a catastrophic event. In addition, PURA § 36.064(d)-(e) anticipates such a surplus balance existing and details how ratepayers receive the benefit of the surplus. Nonetheless, the Company proposes to first make significant progress toward recovering the under-recovered balance of $588.5 million presently existing (see above) before requesting that ratepayers begin to fund the targeted surplus self-insurance reserve balance. Otherwise, the Company would be requesting an additional $66.9 million annually in this proceeding to fund the targeted reserve balance over Mr. Wilson's proposed four-year build-up period.

5. Labor-Related Cost Adjustments

Q. PLEASE OVERVIEW THE COMPANY'S PROPOSED O&M ADJUSTMENTS RELATED TO EMPLOYEE WAGES AND OTHER COMPENSATION COSTS.

A. As described in the direct testimony of Company witness Ms. Guillory, the costs incurred by Oncor during the 2021 test-year for wages and benefits were reasonable and necessary. In addition, Ms. Guillory has provided me with information relating to a 3% general base salary increase for Craft employees, a 3.5% general base increase for employees in the Technician and Non-Exempt Supervisor salary plans, and a 3.5% general base salary increase that became effective in late February 2022 for all other employees. Ms. Guillory has also provided guidance on the expected payout levels associated with the Oncor Performance Enhancement Plan ("PEP").

As shown on RFP Schedule II-D-3.4, the Company's 2021 test-year level of payroll costs totaled $603.1 million, reflecting an increase of more than 4.2% over total payroll costs realized in 2020 (*i.e.*, $578.6 million). Column (b) of RFP Schedule II-D-3.4 summarizes by month the $280.9 million of payroll expenses included in the test-year level of O&M and includes amounts related to base pay amounts, overtime, and incentive compensation. As shown on line 15 of RFP Schedule II-D-3.4, the expensed level of payroll costs represents 46.57% of total payroll costs.

The remaining 53.43% of payroll costs reflects amounts capitalized as construction expenditures, amounts allocated to M&S costs, or amounts deferred as charges to the Company's self-insurance reserve or other miscellaneous deferred debits in job orders. Additionally, a portion of payroll costs are recognized as non-operating expense (*i.e.*, "below the line"). No adjustment to O&M expense is being requested for any of the 53.43% of payroll costs that are either recorded in the balance sheet accounts summarized above or expensed below the line.

In addition, Oncor witness Ms. Guillory has provided me with the expected payout of the Company's PEP incentive compensation program. As described in her direct testimony, Ms. Guillory indicates that the payout level during the 2021 test-year differs from the 120.0% average expected payout in future periods. Accordingly, an adjustment to labor-related O&M expense for Oncor's incentive compensation plans is also necessary.

Finally, an adjustment to normalize the compensation level related to the Company's test-year-end level of employees is necessary to reflect the full year effect of employees added during 2021.

Q. PLEASE DETAIL THE KNOWN AND MEASURABLE ADJUSTMENTS FOR LABOR-RELATED O&M EXPENSE.

A. As shown on workpaper WP/II-D ADJUSTMENT/23, labor-related O&M expense was first adjusted to annualize the compensation levels for the effects of February 26, 2021 general merit increase and to reflect the net increase in the number of employees during the 2021 test-year. This normalization adjustment totals about $6.5 million and brings the total annualized labor-related O&M expense for the 2021 test-year to about $250.8 million.

However, this normalized test-year level is no longer representative of the current labor-related O&M costs, because of the 3.5% general merit increase effective February 26, 2022 described in the direct testimony of Company witness Ms. Guillory. Thus, the second component of the known and measurable labor-related adjustments involves taking the normalized test-year level of compensation and reflecting the effects of the 2022 merit increase. This second component of the adjustment totals an additional $8.8 million adjustment to the test-year level of labor-related O&M (*i.e.*, $250.8 million * 3.5%).

The final component of the known and measurable adjustment reflected on workpaper WP/II-D ADJUSTMENT/23 involves allocating the effects of the 2021 normalization and February 26, 2022 general merit increase identified above to non-productive time (*e.g.*, vacation, holidays, and sick-time). As a result, an additional $0.7 million known and measurable adjustment to labor-related O&M expense is necessary. The combined effects of the three components of the adjustment before considering the impact of payroll-related taxes is just over $16.0 million [*i.e.*, (1) 2021 normalization adjustment of $6,513,730, (2) February 26, 2022 3.5% general merit increase adjustment of $8,776,484, and (3) the non-productive time adjustment of $745,750]. As shown on the bottom of workpaper WP/II-D ADJUSTMENT/23, the adjustment totals to $16,035,964, before considering the effects of Federal Insurance Contributions Act ("FICA") taxes. (Please note that the incremental FICA tax obligation arising from the known and measurable adjustment is reflected as an adjustment to Taxes Other than Income Taxes on RFP Schedule II-E-2.)

Q. HAVE YOU MADE ADDITIONAL KNOWN AND MEASURABLE ADJUSTMENTS FOR LABOR-RELATED O&M EXPENSES ASSOCIATED WITH ONCOR'S INCENTIVE COMPENSATION PROGRAMS?

A. Yes. The 2021 test-year level of expense recognized for the Company's incentive compensation programs is not reflective of the on-going costs that will be realized when rates from this proceeding are in effect. In addition to the PEP incentive compensation plan mentioned above, adjustments to the Oncor Executive Annual Incentive Plan ("EAIP") and the Company's Long-

Term Incentive Program ("LTIP") are also necessary to reflect the known and measurable effects related to normalizing the annual costs of the incentive compensation plan costs during the 2021 test-year and reflect the increase related to the 2022 general merit increase.

With regard to the PEP/EAIP plans, the first component of the known and measurable adjustment involves removing the effects of a true-up accounting entry in early 2021 relating to the 2020 incentive compensation awards paid in March 2021. In essence, the expense level recorded during 2020 was about $1.7 million greater than the actual O&M expense level related to the March 2021 payout for the PEP/EAIP plans. As shown on workpaper WP/II-D ADJUSTMENT/28, the remainder of the known and measurable adjustment involves adjusting the 2021 O&M accrual level down to the 120% average payout level expected in the future, as well as reflect the effects of the overall general merit increase. Combined, these known and measurable adjustments for the PEP/EAIP plans result in a net increase of $3.3 million to Oncor's labor-related O&M expense, before considering the impact of FICA taxes.

Similarly, the known and measurable adjustment shown on workpaper WP/II-D ADJUSTMENT/28 for the LTIP also includes removing the effects of a true-up accounting entry in early 2021 relating to the 2018-2020 performance period. The second component of the LTIP known and measurable adjustment serves to remove the effects of the now complete 2019-2021 performance period and replaces it with the newly begun 2022-2024 performance period. Combined, these known and measurable adjustments for the LTIP program result in a net decrease of $0.7 million to Oncor's labor-related O&M expense, before considering the impact of FICA taxes.

6. Employee Retirement Costs

Q. PLEASE OVERVIEW THE KNOWN AND MEASURABLE ADJUSTMENT TO O&M RELATED TO THE COMPANY'S PENSION AND OPEB COSTS.

A. In the settlement and Order from Docket No. 46957 (see Finding of Fact No. 52), Oncor was granted an annual provision of $42.4 million for pension costs and $29.9 million for OPEB costs to be included in the Company's O&M cost of service accruals. As detailed in his direct testimony, Company witness Mr. Alan S. Taper has provided me with the total current pension and OPEB costs for 2022. US GAAP requires that pension and OPEB costs be measured each fiscal year based on benefit obligations and plan assets as of the last day of the prior fiscal year. As explained in Mr. Taper's direct testimony, the annual re-measurement based on benefit obligations and plan assets as of the 2021 test-year-end results in notably lower pension and OPEB costs for 2022 compared to the values derived for the 2017 measurement reflected in the Docket No. 46957 Order.

In addition, Oncor was granted a 10-year recovery period of the unrecovered pension and OPEB costs that had been deferred through the end of 2016, resulting in annual amortization expense in O&M of $30.7 million for pension costs and $4.2 million for OPEB costs (see Docket No. 46957 Order, Finding of Fact No. 49).

Q. PLEASE DETAIL THE KNOWN AND MEASURABLE ADJUSTMENT TO O&M RELATED TO CURRENT PENSION AND OPEB COST RECOGNITION.

A. As shown in my workpaper WP/II-D ADJUSTMENT/3, the annual recoverable pension costs reflected in the 2022 measurement totals about $48.0 million, of which $22.4 million (or 46.57%) will be recognized as O&M expense. This reflects a reduction in pension costs reflected in rates of $20.1 million. Similarly, as shown in workpaper WP/II-D ADJUSTMENT/4, the annual OPEB costs reflected in the 2022 measurement totals about $18.9 million, of which $8.8 million (or 46.57%) will be recognized as O&M expense. This reflects a reduction in OPEB costs reflected in rates of $21.1 million.

Q. PLEASE DETAIL THE KNOWN AND MEASURABLE ADJUSTMENT TO O&M RELATED TO AMORTIZATION OF THE HISTORICAL PENSION AND OPEB COST UNDER-RECOVERY/OVER-RECOVERY AMOUNTS.

A. As previously addressed in my direct testimony (see section IV.E.1), at the end of the 2021 test-year, there remains a regulatory asset balance of $173.0 million of under-recovered pension costs and $18.8 million of under-recovered OPEB costs that were addressed in the Docket No. 46957 settlement and Order. In addition, between the end of the 2016 test-year-end reflected in Docket No. 46957 and the 2021 test-year-end in this proceeding, Oncor has over-recovered about $17.4 million of pension costs and $39.3 million of OPEB costs. The amortization of the net balances of the regulatory assets and liabilities represented by these four components of employee retirement costs totals $27.0 million annually and results in a net reduction in test-year O&M accruals of $7.9 million compared to the currently allowed amortization levels summarized above. Details of the O&M adjustments related to the amortization of these costs may be found on my workpapers WP/II-D ADJUSTMENT/46 through WP/II-D ADJUSTMENT/49.

Q. ARE THERE ANY KNOWN AND MEASURABLE ADJUSTMENTS TO O&M EXPENSE RELATED TO EMPLOYEE NONRETIREMENT BENEFIT COSTS?

A. Yes. Pursuant to US GAAP (ASC 712 – *Compensation—Nonretirement Postemployment Benefits*, previously Financial Accounting Standard 112), Oncor also accrues costs associated with other postemployment benefits such as long-term disability, workers' compensation, and salary continuation. After the accounting books and records were closed for the test-year ending December 31, 2021, we received an updated valuation from the Company's actuaries as to the appropriate liability existing at the test-year end. The updated valuation indicates that Oncor under-accrued costs subject to ASC 712 during 2021 by close to $2.0 million. In January

2022, about $920,000 (46.57%) of the total was recognized in expense and the remainder in capitalized costs. Accordingly, a known and measurable adjustment to reflect this under-accrual of O&M expense has been made, as summarized in workpaper WP/II-D ADJUSTMENT/5.

7. Unrecovered Expenses Related to COVID-19

Q. PLEASE OVERVIEW THE KNOWN AND MEASURABLE ADJUSTMENT TO O&M RELATED TO THE COMPANY'S COVID-19 PANDEMIC READINESS ACTIONS.

A. As detailed previously in my direct testimony (see section IV.E.7.), Oncor has deferred $34.7 million in incremental operating expenses associated with the Company's response to the COVID-19 pandemic. Similar to the recovery of other regulatory assets and liabilities in this proceeding, Oncor is requesting a five-year recovery period of these incremental costs. In addition, the Company is also seeking to normalize certain employee and other operating expenses affected by the pandemic.

Q. PLEASE DETAIL THE KNOWN AND MEASURABLE ADJUSTMENT TO O&M RELATED TO THE AMORTIZATION OF THE COVID-19 REGULATORY ASSET.

A. While preparing for this rate filing, it was determined that a minor adjustment was necessary to remove $41,176 from the regulatory asset for expenditures that were not incremental costs eligible for deferral. This results in an adjusted regulatory asset balance of $34.6 million as shown on line 8 of RFP Schedule II-B-12. As reflected in workpaper WP/II-D ADJUSTMENT/42, the five-year recovery of the $34.6 million adjusted balance of deferred costs existing at the 2021 test-year end results in a known and measurable amortization O&M expense adjustment of $6.9 million annually.

Q. IS ONCOR CONTINUING TO DEFER COSTS IN THE COVID-19 REGULATORY ASSET?

A. Yes. Subsequent to the end of the 2021 test-year, the Company continues to experience incremental operating costs related to the COVID-19 pandemic.

Q. ARE THERE ADDITIONAL KNOWN AND MEASURABLE ADJUSTMENTS TO O&M RELATED TO THE INCREMENTAL EXPENDITURES ASSOCIATED WITH THE COVID-19 PANDEMIC?

A. Yes. During the 2021 test-year, certain employees were working remotely and did not need to have paid parking spots available. Oncor temporarily suspended withholding from these remote-working employees' paychecks for the employee's portion of workplace parking costs. However, to maintain these parking spots in the Company's downtown Fort Worth office location, Oncor paid the full parking costs during the test-year. Accordingly, as summarized on workpaper WP/II-D ADJUSTMENT/15, I have made a known and measurable adjustment to reduce O&M expense by about $362,500 in parking costs that will be withheld from employees utilizing the parking spaces as the Company returns to a more traditional daily working environment.

In addition, Oncor employees are able to carry over up to 40 hours of unused vacation time into the next year. As a result of the pandemic, employees carried over a higher than expected number of vacation hours at the end of the 2020 calendar year, because travel restrictions and social distancing prevented them from experiencing normal vacation activities. From an accounting perspective, this non-recurring higher than expected accrual of unused vacation time at the end of the 2020 calendar year reversed in 2021 and understates the net normal accrual level in the 2021 test-year. As summarized on workpaper WP/II-D ADJUSTMENT/8, O&M expense has been adjusted by about $320,000 to remove the effects of the non-recurring accrual reversal recognized at the beginning of 2021.

Finally, as a result of the pandemic, Oncor's employee expense levels realized during the 2021 test-year were significantly reduced as a result of limited seminar and trade-show availability, curtailed training opportunities, travel restrictions, and other social distancing protocols limiting employee recognition and information-sharing events. As the Company returns to more normal practices during the period that rates from this proceeding are in effect, Oncor will return to its pre-pandemic level of spending for management and employee training and education, seminar and trade-show participation, travel-related expenses (*e.g.*, airline, mileage, overnight lodging, employee meals), team building activities, employee communication and appreciation occasions, among other similar activities.

Q. PLEASE DESCRIBE THE KNOWN AND MEASURABLE O&M ADJUSTMENT RELATED TO EMPLOYEE EXPENSES.

A. During the 2021 test-year, Oncor only incurred $8.1 million for employee expenses. This was up from the calendar year 2020, but still significantly lower than the pre-pandemic level realized during calendar year 2019. Accordingly, as summarized on workpaper WP/II-D ADJUSTMENT/27 the Company is requesting a known and measurable adjustment to normalize the spending for employee expenses closer to the $14.2 million level realized in 2019, which results in an O&M increase of $5.8 million over the 2021 test-year level.

Q. WHY IS ONCOR NOT REQUESTING TO INCREASE O&M FOR EMPLOYEE EXPENSES BY THE FULL $6.1 MILLION DIFFERENCE BETWEEN THE 2021 TEST-YEAR AND 2019 SPENDING LEVELS?

A. As summarized in my workpaper WP/II-D ADJUSTMENT/54, Oncor has made a known and measurable adjustment to remove about $250,000 of employee expenses realized during the 2021 test-year that reflect entertainment or other activities that are excluded from ratemaking. Based on this review of 2021 employee expenses, an adjustment approximating the same level of non-includable employee expenses in 2019 has been incorporated into the calculation of the net adjustment of $5.8 million of normalized employee expenses that will be realized when rates from this proceeding are in effect. Overall, this known and measurable adjustment to reflect the 2019 historically-based value is likely conservative given that the Company's labor force increased almost 9 percent between year-end 2019 and year-end 2021 (based on total employee counts reflected in the respective 2019 and 2021 Oncor SEC Form 10-K).

8. Wholesale Distribution Substation Service

Q. PLEASE DESCRIBE THE KNOWN AND MEASURABLE ADJUSTMENT FOR O&M RELATED TO WHOLESALE DISTRIBUTION SUBSTATION SERVICE.

A. As authorized (see section IV.E.6. of my direct testimony), Oncor has deferred $75.3 million of the costs of WDSS in a regulatory asset commencing at the time of the 2017 Asset Exchange through the 2021 test-year-end. As a component of this proceeding, Oncor is proposing to recover these deferred costs over a five-year amortization period, resulting in a known and measurable O&M adjustment of $15.1 million, as summarized in workpaper WP/II-D ADJUSTMENT/33. In addition, a known and measurable adjustment of $13.3 million to cover the on-going costs of WDSS is also necessary to match current rates with the current ownership and operating costs of these related facilities, as shown on workpaper WP/II-D ADJUSTMENT/55.

Q. IS ONCOR CONTINUING TO DEFER COSTS RELATED TO WHOLESALE DISTRIBUTION SUBSTATION SERVICE?

A. Yes. The Company will continue to under-recover these WDSS costs until rates from this proceeding go into effect. At such time, it is anticipated that no additional WDSS costs will be added to the existing regulatory asset, which will be extinguished upon completion of the amortization of the remaining unrecovered balance.

9. William Thomas Heath Power Line Safety Act

Q. PLEASE DESCRIBE THE KNOWN AND MEASURABLE O&M ADJUSTMENT RELATED TO THE AVERAGE ANNUAL COSTS

RELATED TO MEETING THE POWER LINE SAFETY ACT REQUIREMENTS.

A. As mentioned previously in my direct testimony (see section IV.E.8.), the average on-going annual costs to meet the requirements of the PLSA is estimated to average about $3.1 million. Accordingly, Oncor is requesting a known and measurable O&M adjustment for these costs to recover the expenditures currently as the amounts are being realized to provide service to utility customers. From an accounting perspective, similar to the accounting for the self-insurance reserve described above, to the extent that average costs associated with meeting the requirements of the PLSA differ from the annual provision, a regulatory asset/liability balance will continue to be recorded. In addition, based on a five-year amortization of the previously realized PLSA costs that have been deferred to a regulatory asset, the Company proposes an O&M expense increase of $1.5 million to amortize the unrecovered balance existing at the 2021 test-year-end. These known and measurable adjustments associated with the PLSA are reflected in my workpapers WP/II-D ADJUSTMENT/56 and WP/II-D ADJUSTMENT/41.

10. Vegetation Management

Q. PLEASE SUMMARIZE THE KNOWN AND MEASURABLE ADJUSTMENT FOR O&M EXPENSE RELATED TO ONCOR'S VEGETATION MANAGEMENT PROGRAM.

A. As described in his direct testimony, Oncor witness Mr. Hull has provided me with a known and measurable adjustment to reflect the increase in labor rates reflected in the Company's contracts with multiple vegetation management service providers. Workpaper WP/II-D ADJUSTMENT/62 provides a summary of the $4,692,000 known and measurable O&M adjustment necessary to maintain vegetation management program results comparable to the 2021 test-year service level. In addition, during the 2021 test-year a non-recurring credit of $84,839 to vegetation management expense was recorded that has been removed as a known and measurable O&M adjustment (see workpaper WP/II-D AJDUSTMENT /10).

11. Leased Mobile Generation Equipment

Q. PLEASE DETAIL THE KNOWN AND MEASURABLE O&M ADJUSTMENT ONCOR IS REQUESTING RELATED TO LEASED MOBILE GENERATION EQUIPMENT.

A. As introduced earlier in my testimony (see sections III.C.3 and IV.A.5.), Oncor had initiated certain leasing activities associated with the provisions of PURA § 39.918. Accordingly, the Company is requesting known and measurable adjustments to O&M expense to reflect the "reasonable and necessary costs of leasing or procuring, owning, and operating facilities under this section, including any deferred expenses". My workpaper WP/II-D ADJUSTMENT/32 summarizes the adjustment for the annual lease costs of $449,450 related to the existing facilities subject to PURA § 39.918. In addition, workpaper WP/II-D ADJUSTMENT/18 reflects an O&M adjustment of $48,150 for the known and measurable maintenance costs associated with the facilities. Third, my workpaper WP/II-D ADJUSTMENT/40 reflects an O&M adjustment for one-fifth (*i.e.*, $5,218) of the test-year balance of $26,088 of deferred costs related to mobile generation equipment, as shown on line 7 of RFP Schedule II-B-12.

Finally, pursuant to the provisions of PURA § 39.918(i), the incremental costs of procuring, leasing, and operating the applicable facilities that are not reflected in this proceeding will be deferred as a regulatory asset for recovery in a future ratemaking proceeding.

12. Amortization of Other Regulatory Assets

Q. PLEASE SUMMARIZE ANY OTHER KNOWN AND MEASURABLE O&M ADJUSTMENTS RELATED TO THE AMORTIZATION OF EXISTING REGULATORY ASSETS.

A. Retail Electric Provider Defaults – As addressed in section IV.E.9. of my direct testimony, the adjusted balance of REP defaults reflected on line 28 of RFP Schedule II-B-12 is $8,358,754, resulting in a required annual O&M requirement of almost $1.67 million over the five-year amortization period. As shown in workpaper WP/II-D ADJUSTMENT/43, this represents a known and measurable increase of $1,403,793 over the existing $268,000 allowance reflected in rates during the 2021 test-year.

<u>Over-Refunded Regulatory Liabilities</u> – As shown on lines 45 and 46 of RFP Schedule II-B-12, there exists a negative regulatory liability (*i.e.*, debit) related to customer refund activity associated with the Docket No. 48325 TCJA federal income tax decrease (Rider TRF) and the 2018 capital structure refund (Rider CSR). Reflecting a five-year amortization of this over-refunding activity produces a known and measurable adjustment of $473,661 to O&M expense for the Rider TRF balance of $2.4 million and an adjustment of $16,329 for the Rider CSR over-refunded balance of $81,644. For additional details of these over-refunded regulatory liabilities, please see the workpapers labeled WP/II-D ADJUSTMENT/39 and WP/II-D ADJUSTMENT/38.

<u>AMS Deployment Plan</u> – As addressed in section IV.E.4 of my direct testimony, $584,070 of deferred customer education and employee severance costs associated with the Company's AMS deployment plan are still unrecovered as of the end of the 2021 test-year. In addition, about $80,080 of AMS-related rate case expenses were unrecovered at the 2021 test-year-end. Existing rates would result in the complete recovery of these deferred costs prior to the end of the five-year amortization period requested for all other regulatory assets in this proceeding. Accordingly, I have made a known and measurable adjustment to reduce the recovery of these costs that results in annual O&M reduction of about $600,600, as summarized on my RFP workpapers WP/II-D ADJUSTMENT/34 through WP/II-D ADJUSTMENT/36.

<u>Acquisition Regulatory Assets</u> – As addressed earlier in section IV.E.11. of my direct testimony, Oncor recognized certain assets acquired in the 2017

Asset Exchange and the InfraREIT Acquisition. As shown on lines 25 and 26 of RFP Schedule II-B-12, the unrecovered balance of the SU/SDTS residential interim rate and transition to competition regulatory assets totaled $627,363 and $2,602,847, respectively, at the 2021 test-year-end. Presently, annual rates reflect only about $167,000 to recover the transition to competition costs and no recovery of the residential interim rate costs. Thus, I have made two known and measurable O&M adjustments totaling $479,267 to reflect a five-year amortization period for these unrecovered costs, as shown in workpapers WP/II-D ADJUSTMENT/37 and WP/II-D ADJUSTMENT/50.

13. Prepaid Insurance Amortization

Q. PLEASE DESCRIBE THE KNOWN AND MEASURABLE ADJUSTMENT RELATED TO THE AMORTIZATION OF PREPAID INSURANCE PREMIUMS.

A. As described in the direct testimony of Company witness Mr. Fease, Oncor is making a known and measurable adjustment to reflect the continuing increases in commercial insurance premiums being realized. My workpaper WP/II-D ADJUSTMENT/29 details the calculation of the insurance premium increase effect on the Company's requested O&M expense level and reflects a known and measurable O&M increase of more than $2.8 million.

14. Technology and Outsourcing

Q. PLEASE DESCRIBE THE KNOWN AND MEASURABLE ADJUSTMENTS RELATED TO ONCOR'S TECHNOLOGY AND OUTSOURCING INITIATIVES.

A. As addressed in the direct testimonies of Company witnesses Ms. Hodges and Mr. Joel S. Austin, the Company is making known and measurable adjustments involving pricing of new capacity model and cost of living adjustment requirements associated with certain technology-related and major outsourcing relationships, as well as increases in embedded hardware and software maintenance costs. Please see my workpaper

WP/II-D ADJUSTMENT/31 for details of the adjustments that net to a $1.1 million reduction to the Company's requested O&M level.

15. Non-Recurring O&M Expenses

Q. PLEASE SUMMARIZE THE KNOWN AND MEASURABLE ADJUSTMENTS THE COMPANY HAS MADE FOR NON-RECURRING EXPENSES.

A. Together with the O&M adjustments that have been addressed above, my workpaper WP/II-D ADJUSTMENT also includes about 13 smaller adjustments reflecting non-recurring expense or credit transactions recognized during the 2021 test-year. In the aggregate, the adjustments reflect a net reduction of about $1.54 million to Oncor's requested test-year level of O&M. Included in these 13 adjustments for non-recurring items are reductions to Oncor's recurring O&M expense levels related to obsolete inventory write-offs (-$860,393, see workpaper WP/II-D ADJUSTMENT/12), reductions to legal fees (-$677,523, see workpaper WP/II-D ADJUSTMENT/30), and a charge for bad debt expense from a third-party (-$410,086, see workpaper WP/II-D ADJUSTMENT/14), as well as non-recurring credits to Oncor's O&M expense level associated with a third-party reimbursement for damage to Oncor assets (+$444,308, see workpaper WP/II-D ADJUSTMENT/6) and certain costs related to a self-insurance reserve claim (+$276,367, see workpaper WP/II-D ADJUSTMENT/9). In addition, we have removed $205,838 of O&M costs related to social club dues (see workpaper WP/II-D ADJUSTMENT/16). For information regarding the remaining O&M adjustments for non-recurring items, see workpapers WP/II-D ADJUSTMENT numbers /11, /17, /21, /22, /25, /51, and /53.

16. Other Normalization of O&M Expenses

Q. PLEASE SUMMARIZE THE KNOWN AND MEASURABLE ADJUSTMENTS THE COMPANY PROPOSES TO NORMALIZE O&M EXPENSE TO A RECURRING LEVEL.

A. In total, I have categorized six additional known and measurable adjustments as normalization modifications necessary to reflect expense amounts at an appropriate annualized level. In the aggregate, these adjustments reflect an additional decrease of more than $1.3 million to the 2021 test-year level of O&M. The major normalization adjustment affecting test-year O&M levels reflects decreases in lease costs, primarily associated with the end of the usage of the Electric Service Building in downtown Fort Worth. As shown on workpaper WP/II-D ADJUSTMENT/26, the 2021 test-year level of O&M expense reflects a known and measurable adjustment to lower leasing expense by $1.6 million. In addition, workpaper WP/II-D ADJUSTMENT/7 reflects a $400,000 increase to O&M to normalize expense by removing the effects of a true-up credit adjustment related to personal injury and property damage accruals. The remaining normalization adjustments reduce O&M by another $102,000 and can be seen on workpapers WP/II-D ADJUSTMENT numbers /19, /20, /52, and /57.

C. Adjustments to Depreciation and Amortization Expense

Q. PLEASE DISCUSS ONCOR'S HISTORICAL DEPRECIATION AND AMORTIZATION EXPENSE INCURRED DURING THE 2021 TEST-YEAR.

A. As reported in the Statements of Consolidated Income in the Oncor 2021 SEC Form 10-K, the Company recognized $820 million in depreciation ($775.8 million in FERC A403) and amortization ($44.7 million in FERC A404) charges in operating income during the 2021 test-year. As discussed previously in my direct testimony (see Section IV.E.12.), I have provided a gross adjustment of $21.8 million to Oncor witness Mr. Watson relating to the amortization expense credit recorded during the 2021 test-year associated with the correction of amortization recognized in previous years in error. Further, as addressed previously in my direct testimony (see Section III.C.4), I have made an additional adjustment of $2.1 million to depreciation expense to reflect the property-related NSC pension and OPEB costs being amortized as a regulatory asset pursuant to US GAAP.

Thus, the regulated 2021 test-year depreciation and amortization expense level totals $844.4 million as shown on line 59, column (f), of RFP Schedule II-E-1.

Q. PLEASE SUMMARIZE THE COMPANY'S ADJUSTED LEVEL OF DEPRECIATION AND AMORTIZATION EXPENSE BEING REQUESTED IN THIS PROCEEDING.

A. As described previously in my direct testimony (see Section IV.A.), RFP Schedule II-B indicates that Oncor's gross original cost of electric plant in service totals more than $31 billion at the end of the 2021 test-year. Company witness Mr. Watson has provided me with the proposed annual total of $901 million (average of about 2.9%) on Oncor's existing property, plant, and equipment assets. Compared to depreciation and amortization charges at existing depreciation rates, the proposed depreciation and amortization factors represent a nominal increase of $21.6 million, representing a weighted increase in depreciation rates of about 2.5%. Also included in the $901 million annual depreciation and amortization requirement is a $12.5 million annual accrual to recover the $99.8 million general plant depreciation reserve imbalance described in Mr. Watson's direct testimony. The accrual reflects an eight-year recovery period of the general plant reserve imbalance and represents an additional increase in depreciation and amortization rates of about 1.4%.

The following summary details (in millions) the walk-forward of the depreciation and amortization expense recognized during the 2021 test-year and the $901 million total reflected in the Company's requested cost of service calculation:

2021 Actual Depreciation Charges, at present rates	$775.8
2021 Actual Amortization Charges, at present rates	$44.7
Adjustment to Remove Amortization correction	$21.8
Reclassification of Pension & OPEB NSC	$2.1
Regulated 2021 Test-Year Depreciation & Amort	$844.4

Normalization to Test-Year-End Plant Balances	$22.4
Normalized 2021 Test-Year Depreciation & Amort	$866.8
Effect of Proposed Net D&A Rate Changes	$21.6
Recovery of General Plant Reserve Imbalance	$12.5
Requested Depreciation and Amortization Expense	$900.9

Normalization: As discussed above, the regulated 2021 test-year level of depreciation and amortization of $844.4 million represents the adjusted total expense for the 2021 test-year. However, because additional electric plant in service additions and retirements were experienced throughout the year, it is necessary to "normalize" the expense level to reflect the total depreciation and amortization charges that would be expensed using the currently authorized depreciation and amortization rates approved in the Docket No. 46957 settlement and Order. The $22.4 million normalization value shown above represents the incremental depreciation and amortization that will be realized when a full year of depreciation charges are recognized on the net 2021 plant additions and retirements.

Proposed Net Depreciation and Amortization Rate Changes: Company witness Mr. Watson has provided me with the depreciation rate changes for all of the Company's utility plant assets, including the business computer systems and software reflected in FERC A303 *(Miscellaneous Intangible Plant)*.

Recovery of General Plant Reserve Imbalance: Company witness Mr. Watson has also provided me with the calculated general plant reserve imbalance and has recommended the eight-year amortization period to recover the existing shortfall.

D. Adjustments to Taxes Other than Federal Income Taxes

Q. PLEASE SUMMARIZE ONCOR'S ADJUSTED LEVEL OF TAXES OTHER THAN FEDERAL INCOME TAXES BEING REQUESTED IN THIS PROCEEDING.

A. As reported in the Statements of Consolidated Income in the Oncor 2021 SEC Form 10-K, the Company recognized $555 million in taxes other than amounts related to income taxes in operating income for the 2021 test-year. As summarized on RFP Schedule II-E-2, Oncor witness Ms. Clutter has provided the 2021 test-year level of $579.3 million, including almost $24 million associated with the Texas Gross Margin Tax.

Q. IS THE COMPANY PROPOSING ANY ADJUSTMENTS TO THE TEST-YEAR LEVEL OF TAXES OTHER THAN FEDERAL INCOME TAXES?

A. Yes. As described in the direct testimony of Company witness Ms. Clutter, the known and measurable adjustments to taxes other than federal income taxes total $33.1 million, resulting in an adjusted revenue requirement of approximately $612.3 million related to Oncor's taxes other than federal income taxes, including $27.7 million associated with the Texas Gross Margin Tax.

E. Adjustments to Federal Income Tax Expense

Q. PLEASE SUMMARIZE ONCOR'S ADJUSTED LEVEL OF FEDERAL INCOME TAX EXPENSE BEING REQUESTED IN THIS PROCEEDING.

A. As reported in the Statements of Consolidated Income in the Oncor 2021 SEC Form 10-K, the Company recognized $165 million in the provision in lieu of incomes taxes reflected in operating income for the test-year, including $24 million associated with the Texas Gross Margin Tax. As summarized on RFP Schedule II-E-3, Company witness Ms. Clutter has provided the 2021 test-year level of approximately $141.2 million of total federal income taxes related to Oncor's regulated T&D businesses. As addressed in Ms. Clutter's direct testimony, the adjustments to the test-year level of federal income taxes, including interest synchronization to the test-year-end requested rate base total, result in a revenue requirement of $166.1 million related to Oncor's federal income tax expense.

F. Other Cost of Service Adjustments

Q. PLEASE DESCRIBE ANY OTHER SIGNIFICANT KNOWN AND MEASURABLE ADJUSTMENTS REFLECTED IN ONCOR'S REQUESTED COST OF SERVICE.

A. The Company recognizes costs in a variety of other accounts that effect Oncor's revenue requirement. One significant component of these costs reflects miscellaneous revenues that Oncor receives within the scope of the Company's operating activities, including services for engineering studies, rental of utility property, and non-standard service provision. I will address these miscellaneous revenues and other significant issues affecting the Company's revenue requirement, including the amortization of under-recovered AMS revenues, in the sections that follow.

1. Miscellaneous Revenues

Q. PLEASE SUMMARIZE THE LEVEL OF OTHER REVENUES RECOGNIZED BY ONCOR DURING THE TEST-YEAR ENDED DECEMBER 31, 2021.

A. As disclosed in its 2021 SEC Form 10-K, the Company reported a total of $104 million in "Other miscellaneous revenues" during 2021, including about $2.3 million associated with wholesale substation service (Rate XFMR) and wholesale distribution line service (Rate DLS) at current rates. Key components of this $104 million total include:

a. tariff-based miscellaneous service revenues totaling approximately $20.4 million (excludes negative $0.12 million of unbilled revenue) for providing discretionary services billed to REPs and others, for the benefit of end-use customers served by Oncor, as well as $0.5 million for other miscellaneous service revenues;
b. rental income of approximately $25.3 million primarily from telecommunication and television cable service providers;
c. revenues of about $23.5 million related to other electric revenues associated with the provision of dual feed service or reserving of

capacity from alternate distribution or transmission feeders, maintenance (as well as installation and removal) activities of antenna attachments, FIT gross-up amounts applicable to contributions in aid of construction, facilities and other engineering studies, affiliate operations services provided to Sharyland, and other miscellaneous revenues recorded to FERC A456;

d. revenues totaling approximately $1.1 million recorded in FERC A450 *(Forfeited Discounts)*; and

e. recognition of the performance bonus of $30.8 million awarded in Docket No. 52178 related to Oncor's energy efficiency program achievements during 2020.

Q. PLEASE DESCRIBE WHICH OF THE OTHER MISCELLANEOUS REVENUE COMPONENTS AFFECT THE DETERMINATION OF ONCOR'S REVENUE REQUIREMENT.

A. With the exception of item e. identified above, the adjusted levels of test-year revenue related to miscellaneous revenues are reflected in Schedule II-E-5 and serve as credits against the Company's cost of service as described in the Commission's RFP instructions.

<u>a. Miscellaneous Service Revenues</u>

Q. PLEASE DESCRIBE THE DISCRETIONARY SERVICE CHARGES BILLED BY THE COMPANY TO REPS AND OTHERS.

A. As shown on line 5 of Schedule II-E-5, Oncor recognized $20.4 million revenues arising from services performed primarily for REPs operating within Oncor's service territory. Principal among these charges that are recorded in FERC A451 *(Miscellaneous Service Revenues)* are amounts related to move-in/move-out of retail customers, disconnection and reconnection activity following a retail customer's failure to pay charges billed by its REP, customer requested clearances, temporary facilities, non-standard equipment inspection/testing, inadvertent gain charges, and billings for the unauthorized use of Oncor's delivery system resulting in theft of service or other tampering of Company metering facilities. As described in his direct testimony, Oncor witness Mr. Troxle has provided me with the adjusted revenue total of approximately $22.5 million shown in Schedule II-E-5, column (i) of line 5, as well as the functional assignment of the revenues in columns (n) through (v) of Schedule II-E-5.

Q. PLEASE DESCRIBE THE OTHER MISCELLANEOUS SERVICE REVENUES AMOUNTS REFLECTED IN FERC ACCOUNT 451.

A. As shown on line 6 of RFP Schedule II-E-5, during the 2021 test-year, Oncor recognized $456,565 of additional miscellaneous service revenues in FERC A451 that are not related to the provision of tariff-based discretionary services. A small portion (~4%) of this revenue is associated with customer tampering-related charges. The remaining primarily represents contributions in aid of construction ("CIAC") and miscellaneous switch-over fees collected to defray the costs of requested non-standard electricity service from distribution customers. As shown in column (r) of Schedule II-E-5, the 2021 test-year level of these miscellaneous service revenues have been directly assigned to the DIST function.

b. Rent from Electric Property

Q. PLEASE DISCUSS THE APPROXIMATELY $25.5 MILLION OF REVENUES RECORDED DURING THE TEST-YEAR IN FERC A454 FOR RENT FROM ELECTRIC PROPERTY.

A. FERC A454 *(Rent from Electric Property)* reflects $25,524,352 [see Schedule II-E-5, column (d), lines 8-12] for amounts received for the use by others of land, rights-of-way, buildings, and other property devoted to the Company's electric operations. Oncor's distribution and transmission functions both have contractual lease arrangements that provide for third-party pole contacts, fiber optic use, mounting of antenna structures on transmission facilities, and other use of rights-of-way. Functionalization of the revenues arising from electric property rental income reflects direct assignment to the related function.

Q. HAVE YOU MADE ANY ADJUSTMENTS OR KNOWN AND MEASURABLE CHANGES TO THE RENT FROM ELECTRIC PROPERTY REVENUE ACCOUNT?

A. Yes. As addressed in the direct testimony of Oncor witnesses Messrs. Grable and Martin, there are certain intra-company operations and maintenance service agreements between Oncor and Oncor NTU, as allowed by the Order in Docket No. 48929 (*e.g.*, see Finding of Fact Nos. 66 and 67). While such intra-company transactions are eliminated for external reporting purposes, it is necessary to reflect the property-related component of the intra-company service billing to provide for a proper assignment of costs between Oncor and Oncor NTU. Accordingly, I have adjusted column (e) of line 12 on Schedule II-E-5 to reflect the test-year level of $305,804 of consolidated affiliate revenue recognized by Oncor from Oncor NTU. The purpose of this first adjustment is to properly assign costs between Oncor and its indirect subsidiary Oncor NTU. There is a corresponding increase in expense adjustment that offsets the effect of this understatement of affiliate revenue. Thus, this first adjustment does not affect the overall cost of service of Oncor. In addition, I have adjusted column (h) of line 12 on Schedule II-E-5 to correct for an understatement of consolidated affiliate revenue of $101,559 relating to an inadvertent accounting error in October of the 2021 test-year. (Please see workpapers WP/II-E-5 and WP/II-D ADJUSTMENT/59 for additional details.)

c. Forfeited Discounts

Q. PLEASE DESCRIBE THE OTHER OPERATING REVENUES RECORDED TO FERC A450.

A. As reflected on line 4 of RFP Schedule II-E-5, Oncor recognized $1,070,706 of revenues in FERC A450 *(Forfeited Discounts)*. These revenues represent additional charges imposed against REPs arising from the failure on their part to remit payment for electric delivery services and other billed costs on or before the specified due date (typically 35 days following invoice transmittal). As shown in column (r) of RFP Schedule II-E-5, these delinquent payment assessments have been directly assigned to the DIST function.

d. Other Electric Revenues

Q. PLEASE DISCUSS THE APPROXIMATELY $23.5 MILLION OF REVENUES RECORDED DURING THE TEST-YEAR IN FERC A456 RELATED TO OTHER ELECTRIC REVENUES.

A. During the 2021 test-year, as shown on line 13 of Schedule II-E-5, the Company recognized $23,481,636 in FERC A456 *(Other Electric Revenues)* for amounts arising from electric operations not includable in any of the other operating revenue accounts (*i.e.*, FERC A440 through A455). Principal among these other electric revenues was $9.7 million of revenues associated with engineering, analysis, and review activities provided to third parties related to facilities studies, interconnection, or distributed generation projects. Another key component of these other electric revenues involves $3.8 million of maintenance of high-voltage facilities performed by Oncor for third parties. A third major component of these other electric revenues reflects about $5.9 million of revenue related to federal income tax gross-up amounts applied to CIAC amounts billed to customers in order to not only cover the cost of requested services, but also the cost of increased tax liabilities arising from the transaction. Another component of these other electric revenues reflects charges totaling $1.4 million to customers for proration of system capacity reserved for end-use customers. In addition, $1.4 million in revenues associated with the operation of the DC Ties to electric grids outside of ERCOT were recognized during the 2021 test-year. Finally, Oncor recognized about $178,000 in energy charges billed in connection to customer tampering activity, $506,000 of revenue from mutual assistance and other miscellaneous billings, as well as about $543,000 in other electric revenues related to the provision of operations services to Sharyland.

Q. HAVE YOU MADE ANY ADJUSTMENTS OR KNOWN AND MEASURABLE CHANGES TO THE TEST-YEAR AMOUNTS RECOGNIZED FOR OTHER ELECTRIC REVENUES?

A. Yes. As described in the direct testimony of Oncor witnesses Messrs. Grable and Martin, similar to the affiliate services provided to Sharyland, Oncor also provides operations and maintenance services for the benefit of Oncor NTU. However, since this wholly owned subsidiary is consolidated with Oncor for financial reporting purposes, the other electric revenues associated with the provision of services is not reflected in the "Total Company" [column (d)] values reflected on RFP Schedule II-E-5. Accordingly, I have made an adjustment to reflect the $9.3 million in test-year billings between Oncor and Oncor NTU for the provision of the operations and maintenance activities. As discussed previously for the portion of these intra-company billings that are property-related (see b. Rent from Electric Property above), the non-property-related revenues are reflected in the schedule to properly assign costs between Oncor and its subsidiary Oncor NTU and serve to offset the intra-company expense adjustment reflected in operating expenses.

I have also made an adjustment to other electric revenues to remove $228,534 of non-recurring revenues associated with mutual assistance activity recognized during the 2021 test-year. As shown on column (h) of line 13 on RFP Schedule II-E-5, there is a net known and measurable adjustment of $228,125 reflecting the removal of the revenues associated with mutual assistance, as well as a $409 negative adjustment related to the accounting error discussed above (see section V.F.1.b.).

e. Energy Efficiency Program Performance Bonus

Q. DURING THE TEST-YEAR, DID ONCOR RECOGNIZE MISCELLANEOUS REVENUES RELATED TO ITS ENERGY EFFICIENCY PROGRAM?

A. Yes. In November 2021, Oncor recognized a miscellaneous revenue accrual related to the performance bonus awarded in Docket No. 52178 for the Company's energy efficiency achievements during calendar year 2020. This amount is not reflected in Schedule II-E-5 and, for purposes of this rate proceeding, Oncor is not including the energy efficiency performance bonus as a credit offset against the Company's revenue requirement. This treatment is consistent with 16 TAC § 25.182(e)(7), which provides that a performance bonus awarded to a utility for exceeding its demand and energy reduction goals "shall not be included in the utility's revenues or net income for the purpose of establishing a utility's rates or commission assessment of its earnings."

f. Power Factor Revenue

Q. PLEASE DESCRIBE THE KNOWN AND MEASURABLE ADJUSTMENT RELATING TO POWER FACTOR REVENUES.

A. As discussed in the direct testimony of Oncor witnesses Messrs. Troxle and Nelson, Oncor proposes to adjust the billing demands of certain retail customers to reflect the power factor provision set forth in Section 5.5.5 of the Company's Tariff for Retail Service. As shown on line 3 of Schedule II-E-5, the Company has made a known and measurable adjustment totaling $17,616,778 to FERC A442 *(Commercial and Industrial Sales)* to reflect the revenues arising from this tariff provision. This amount has been directly assigned to the DIST function.

g. Other Revenue Summary

Q. PLEASE SUMMARIZE YOUR DIRECT TESTIMONY RELATED TO ONCOR'S OTHER REVENUE ITEMS (CREDIT) REFLECTED ON RFP SCHEDULE II-E-5.

A. Oncor's 2021 SEC Form 10-K reflects the recognition of a total of $104 million in "Other miscellaneous revenues" during 2021. For purposes of this proceeding, approximately $71 million of this total is addressed in Schedule II-E-5. After making adjustments for affiliate transactions and appropriate known and measurable changes (including the adjustment for increased power factor billings), Schedule II-E-5 reveals there is a total of about $100.1 million of other revenues available to reduce Oncor's revenue requirement. On a functionalized basis, this results in a credit of $43,023,335 for the TRAN function, $51,757,982 for the DIST function, $5,094,631 for the MET function, and $205,015 for the TDCS function. For additional details, please see Schedule II-E-5 and the related workpapers.

2. Amortization of AMS Under-Recovery

Q. PLEASE DESCRIBE THE ADJUSTMENT TO AMORTIZATION EXPENSE RELATED TO THE HISTORICAL UNDER-RECOVERY OF REVENUES RELATED TO ONCOR'S AMS PROGRAM.

A. As discussed earlier in my direct testimony, during the period Oncor's Advanced Metering Cost Recovery Factor was in effect, the Company under-recovered its AMS costs by $211 million. As of the 2021 test-year-end, the unrecovered balance totals $127.3 million, as shown in column (k) of RFP Schedule II-E-4.1.1. Consistent with the five-year recovery/refund period of Oncor's other deferred costs in this proceeding, I have made an adjustment to FERC A407 to increase the amortization of the remaining balance from the current $20.5 million annual level reflected in the Docket No. 46957 settlement agreement to $25.5 million annually. This adjustment has been directly assigned to the MET function, as shown in column (t) of RFP Schedule II-E-4.1 (see line 5).

3. Gain or Loss on Sale of Utility Assets

Q. PLEASE DESCRIBE TRANSACTIONS THAT RESULT IN THE RECOGNITION OF AN ACCOUNTING GAIN OR LOSS RELATED TO THE SALE OF UTILITY PLANT.

A. As reflected on RFP Schedule II-B-13, Oncor disposed of eight parcels of non-depreciable fee land resulting in the recognition of a cumulative net gain of about $1.04 million. Pursuant to the instructions reflected in the USOA (*e.g.*, see Electric Plant Instruction Nos. 5.F. and 7.E.), Oncor recognizes gains or losses only on a sale involving land owned in fee or upon the sale of an "operating unit or system". In contrast, net proceeds realized from the disposition of other depreciable property (*i.e.*, non-land property that is not an operating unit or system) are debited directly to FERC A108 *(Accumulated Provision for Depreciation of Electric Utility Plant)*. As a result, there is no gain or loss recognition from the disposal of depreciable plant, unless it constitutes an operating unit or system. The gain or loss associated with the sale of non-depreciable land or an operating unit or system reflects the difference between the original cost of the assets (plus commissions and other direct selling expenses) as compared to the sales price.

Q. DID ONCOR RECORD ANY GAINS OR LOSSES RELATED TO THE SALE OF AN "OPERATING UNIT OR SYSTEM" DURING THE 2021 TEST-YEAR?

A. No. In general, the disposition of individual assets would not be considered an operating unit or system unless the total investment in an individual FERC account was sold. For example, the sale of assets to LP&L discussed earlier in my direct testimony would not constitute a sale of an operating unit or system, because it does not represent the disposition of all the assets in the various FERC accounts affected.

Q. WERE ALL PROPERTIES THAT WERE SOLD DURING 2021 PREVIOUSLY INCLUDED IN ELECTRIC PLANT IN SERVICE?

A. Yes. All parcels of land that were sold during the 2021 test year have been included in Electric Plant in Service and afforded rate base treatment.

Q. PLEASE EXPLAIN WHY ONCOR DOES NOT INCLUDE ANY AMOUNT OF THE GAINS OR LOSSES RECOGNIZED FROM SALES OF LAND DURING 2021 IN THE CALCULATION OF THE COMPANY'S REVENUE REQUIREMENT?

A. When Oncor makes an investment in fee land that is used and useful in providing utility service to ratepayers it is afforded rate base treatment on the investment. However, unlike depreciable property, the investment in fee land is not recovered until the property is removed from service, if ever, and ultimately sold. Accordingly, it is the Company's investors that assume the risk that the investment principal will be recovered through a third-party sale. Furthermore, the sale of land is not a normal operational business activity for a going concern utility and land sale transactions are not driven by economic profit motivation (*e.g.*, not timed to match periods of increased property values). In addition, the Commission has not previously reflected historical gains or losses in the determination of the Company's rates. Finally, the net gain recognized during 2021 primarily reflects the effects of a non-recurring disposition of property that was placed into service 100 years earlier (see line 13 of RFP Schedule II-B-13). Unlike depreciable property, where the Company's investment is recovered ratably over the useful life of the facilities, Oncor has not recovered any of its original investment in this particular property over the past century.

<u>4. Other Adjustments</u>

Q. PLEASE DISCUSS ANY OTHER ADJUSTMENTS TO THE COMPANY'S REQUESTED COST OF SERVICE.

A. <u>Interest on Customer Deposits</u> – The test-year total of miscellaneous other expense associated with interest on customer deposits, as summarized on line 4 of RFP Schedule II-E-4, is also reflected on line 61 of RFP Schedule II-E-1. Oncor witness Mr. Thenmadathil has provided me with the adjusted total of customer deposits reflected in the Company's requested rate base and I have reduced the requested level of interest on customer deposits accordingly.

G. Summary of Adjusted Cost of Service

Q. As described above, RFP Schedule 1-A-1 summarizes the Company's functionalized total cost of service and the total adjusted revenue requirement. As adjusted, Oncor's total cost of service amounts to $5,824.1 million, including the affiliate $13.3 million cost of service component related to wholesale distribution substation service provided by Oncor NTU to Oncor's distribution function. Included in the $5,824 million cost of service is $2,794 million in gross O&M costs, including affiliate network transmission service costs, as well as $925 million of depreciation and amortization (and other) expenses, $612 million for taxes other than federal income taxes, and $166 million related to the federal income tax provision. In addition, the cost of service reflects return of $1,327 million on Oncor's net rate base of $18.82 billion.

VI. TRANSMISSION COST OF SERVICE

Q. HAS ONCOR FUNCTIONALIZED ITS TRANSMISSION COST OF SERVICE IN ACCORDANCE WITH 16 TAC §§ 25.191 – 25.203 AND THE TRANSMISSION COST OF SERVICE RFP INSTRUCTIONS?

A. Yes. For the determination of its TCOS, Oncor has included its cost of owning and operating a high-voltage transmission system that physically begins at the high-voltage bushing of a generating station's unit-main transformer and terminates at the high-voltage bushing of a distribution main power transformer. All equipment located between these two points is operated at transmission voltage levels equal to or greater than 60 kilovolts and, pursuant to 16 TAC § 25.192(c)(1), is classified as transmission plant.

Q. WHAT OTHER COSTS HAVE BEEN INCLUDED IN ONCOR'S TCOS?

A. In accordance with the Commission's TCOS-RFP instructions, general plant facilities and equipment have been assigned or allocated to TCOS, as appropriate. Additionally, other allowable transmission costs, such as depreciation and taxes, as well as M&S assets, have been included in the TCOS determination. The functionalization of these costs as transmission business function expenses and rate base has been discussed previously in my direct testimony. As summarized on RFP Schedule III-A-1, Oncor's consolidated transmission cost of service totals $1.49 billion, including $636 million of return on rate base.

Q. HOW DID ONCOR DETERMINE THE AMOUNT OF O&M EXPENSE ASSOCIATED WITH DISTRIBUTION SUBSTATIONS OPERATION THAT RELATES TO TCOS?

A. As previously mentioned, Oncor's activity-based management system has provided the transmission business unit with enhanced cost accounting tools for accumulating and assigning costs based on transmission business unit work activities performed. The various activity codes serve to identify costs within the Company's accounting system between lower-voltage distribution expenses and high-voltage transmission O&M activities. Accordingly, O&M costs related to high-voltage substation equipment can be directly assigned to the TRAN function by utilizing the Company's books and records, thereby avoiding the need to allocate these costs less accurately.

Q. HAS THE COMPANY INCLUDED COSTS OF THIRD-PARTY TRANSMISSION EXPENSES IN ITS TCOS DETERMINATION?

A. No. Pursuant to 16 TAC § 25.192(b), distribution service providers shall incur transmission service charges pursuant to the tariffs of transmission service providers.

VII. SUMMARY AND CONCLUSION

Q. MR. LEDBETTER, PLEASE SUMMARIZE YOUR DIRECT TESTIMONY IN THIS PROCEEDING.

A. Oncor's internal control over financial reporting is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with US GAAP. Oncor's accounting records and practices supporting such financial statements provide the foundation for accurate and transparent reporting of the Company's regulated rate base and cost of service determination.

As addressed in the direct testimonies of Oncor's witnesses, including myself, the Company's Rate Filing Package accurately portrays the value of Oncor's invested capital, as adjusted, at the December 31, 2021 test-year-end. As shown on RFP Schedule II-B, Oncor's rate base reflects $21.09 billion of net plant in service and a net $2.27 billion credit for other rate base items, reflecting a net total rate base of $18.82 billion. The components of Oncor's rate base have been appropriately functionalized between distribution retail and wholesale transmission activities, consistent with the Commission's Substantive Rules and the RFP instructions. Included in the rate base is $979 million of non-tax related regulatory assets and liabilities that have been addressed in my direct testimony and/or in the RFP schedules (*e.g.*, RFP Schedule II-B-12).

In addition, the direct testimonies of the Company's witnesses and the Rate Filing Package accurately portray the cost of service for Oncor based on the twelve-month test-year period ended December 31, 2021, as adjusted. The accounting and financial-related adjustments described in my testimony and reflected in the RFP schedules sponsored by me reflect appropriate ratemaking treatment for these amounts.

Q. DOES THIS CONCLUDE YOUR DIRECT TESTIMONY?

A. Yes.

AFFIDAVIT

STATE OF TEXAS §
§
COUNTY OF DALLAS §

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

My name is W. Alan Ledbetter. I am of legal age and a resident of the State of Texas. The foregoing direct testimony and attached exhibits 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. Alan Ledbetter
W. Alan Ledbetter

SUBSCRIBED AND SWORN TO BEFORE ME by the said W. Alan Ledbetter this 19th day of April, 2022.

TERI SMART
Notary Public, State of Texas
Comm. Expires 11-13-2024
Notary ID 514088-5

Teri Smart
Notary Public, State of Texas

2022 RATE CASE
ONCOR ELECTRIC DELIVERY COMPANY LLC
RATE FILING PACKAGE SCHEDULES
SPONSORED BY W. ALAN LEDBETTER

SECTION REFERENCE SCHEDULE NUMBER	TITLE OF SCHEDULE	SPONSOR(S)
SECTION I SUMMARY		
I-A	COST OF SERVICE SUMMARY	W. ALAN LEDBETTER / M. TROXLE
I-A-1	TOTAL COST OF SERVICE BY FUNCTION	W. ALAN LEDBETTER
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II-B-3	COMMUNICATION EQUIPMENT	W. ALAN LEDBETTER
II-B-4	CONSTRUCTION WORK IN PROGRESS	W. ALAN LEDBETTER
II-B-5	ACCUMULATED DEPRECIATION	W. ALAN LEDBETTER / D. WATSON
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III-D-1.1	MONTHLY O&M EXPENSE	W. ALAN LEDBETTER
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II-D-2.7b	OUTSIDE SERVICES EMPLOYED-FERC 900 SERIES EXPENSES - 2014	W ALAN LEDBETTER
II-D-2.7c	OUTSIDE SERVICES EMPLOYED-FERC 900 SERIES EXPENSES - 2013	W ALAN LEDBETTER
II-D-2.7d	OUTSIDE SERVICES EMPLOYED - 2013 TO 2014 VARIANCE	W ALAN LEDBETTER
II-D-2.7e	OUTSIDE SERVICES EMPLOYED - 2014 TO 2015 VARIANCE	W ALAN LEDBETTER
II-D-2.7f	OUTSIDE SERVICES EMPLOYED - 2015 TO 2016 VARIANCE	W ALAN LEDBETTER
II-D-2.9	RENTS AND LEASES - MONTHLY LEASE AMOUNT AND PAYMENT - 2016	W ALAN LEDBETTER
II-D-2.9a	RENTS AND LEASES - MONTHLY LEASE AMOUNT AND PAYMENT - 2015	W. ALAN LEDBETTER
II-D-2.9b	RENTS AND LEASES - MONTHLY LEASE AMOUNT AND PAYMENT - 2014	W. ALAN LEDBETTER
II-D-2.9c	RENTS AND LEASES - MONTHLY LEASE AMOUNT AND PAYMENT - 2013	W. ALAN LEDBETTER
II-D-2.9 Attachment	RENTS AND LEASES (ATTACHMENT 1)	W. ALAN LEDBETTER

2022 RATE CASE
ONCOR ELECTRIC DELIVERY COMPANY LLC
RATE FILING PACKAGE SCHEDULES
SPONSORED BY W. ALAN LEDBETTER

SECTION REFERENCE SCHEDULE NUMBER	TITLE OF SCHEDULE	SPONSOR(S)
II-D-3	PAYROLL EXPENSE DISTRIBUTION	W ALAN LEDBETTER
II-D-3 2	REGULAR AND OVERTIME PAYROLL BY FUNCTION	W. ALAN LEDBETTER
II-D-3.3	FUNCTIONALIZED REGULAR PAYROLL BY CATEGORY	W. ALAN LEDBETTER
II-D-3.4	PAYROLL CAPITALIZED VS EXPENSED BY FUNCTION	W. ALAN LEDBETTER
II-D-3.6	COMPENSATION OTHER THAN STANDARD COMPENSATION BY FUNCTION	W. ALAN LEDBETTER / A. GUILLORY
II-D-3 7.1	GENERAL EMPLOYEE BENEFIT INFORMATION	W. ALAN LEDBETTER / A. GUILLORY
II-D-3.7.2	GENERAL EMPLOYEE BENEFIT INFORMATION	W. ALAN LEDBETTER / A GUILLORY
II-D-3.7.3	GENERAL EMPLOYEE BENEFIT INFORMATION	W. ALAN LEDBETTER / A. GUILLORY
II-D-3 7 3a Workpaper	GENERAL EMPLOYEE BENEFIT INFORMATION (Workpaper)	W ALAN LEDBETTER / A. GUILLORY
II-D-3 7.4	GENERAL EMPLOYEE BENEFIT INFORMATION	W. ALAN LEDBETTER / A. GUILLORY
II-D-3 7.4a	GENERAL EMPLOYEE BENEFIT INFORMATION - OTHER EMPLOYEE BENEFITS	W ALAN LEDBETTER / A GUILLORY
II-D-3.7.5	GENERAL EMPLOYEE BENEFIT INFORMATION	W. ALAN LEDBETTER / A GUILLORY
II-D-3.8.1	PENSION EXPENSE	W. ALAN LEDBETTER / A GUILLORY / K. FEASE
II-D-3.8.2	PENSION EXPENSE	W. ALAN LEDBETTER / A. GUILLORY / K. FEASE
II-D-3 8.3	PENSION EXPENSE	W ALAN LEDBETTER / A. GUILLORY / K FEASE
II-D-3.9.1	POSTRETIREMENT BENEFITS OTHER THAN PENSION	W ALAN LEDBETTER / A. GUILLORY / K. FEASE
II-D-3.9.2	POSTRETIREMENT BENEFITS OTHER THAN PENSION	W ALAN LEDBETTER / A GUILLORY / K. FEASE
II-D-3 9.3	POSTRETIREMENT BENEFITS OTHER THAN PENSION	W. ALAN LEDBETTER / A. GUILLORY / K FEASE
II-D-3 10	ADMINISTRATION FEES	W. ALAN LEDBETTER / A. GUILLORY
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II-D-4	SUMMARY OF EXCLUSIONS FROM TEST YEAR	W ALAN LEDBETTER
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II-E-4.1.1	II-E-4.1 DEFERRED EXPENSES FROM PRIOR DOCKETS (Supplement)	W ALAN LEDBETTER
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V-K-2	ADJUSTED AFFILIATE EXPENSES BY FERC ACCOUNT	M GRABLE / W. ALAN LEDBETTER
V-K-5	CAPITAL PROJECTS	M. GRABLE / W. ALAN LEDBETTER
V-K-6	ADJUSTMENTS TO TEST YEAR EXPENSES	M. GRABLE / W. ALAN LEDBETTER
V-K-8	SERVICES PROVIDED TO AFFILIATES	M. GRABLE / W. ALAN LEDBETTER
V-K-8.1	ONCOR NTU CAPITAL PROJECTS	M. GRABLE / W. ALAN LEDBETTER
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SECTION VI OTHER SCHEDULES		
Schedule L	TRANSMISSION & DISTRIBUTION UTILITY CUSTOMER SERVICES	W. ALAN LEDBETTER

FERC Uniform System of Accounts Listing

Account No.	Account Description

Balance Sheet Chart of Accounts

ASSETS AND OTHER DEBITS

1. UTILITY PLANT

101	Electric plant in service (Major only)
101.1	Property under capital leases
102	Electric plant purchased or sold
103	Experimental electric plan unclassified (Major only)
103.1	Electric plant in process of reclassification (Nonmajor only)
104	Electric plant leased to others
105	Electric plant held for future use
106	Completed construction not classified - Electric (Major only)
107	Construction work in progress - Electric
108	Accumulated provision for depreciation of electric utility plant (Major only)
109	[Reserved]
110	Accumulated provision for depreciation and amortization of electric utility plant (Nonmajor only)
111	Accumulated provision for amortization of electric utility plant (Major only)
112-113	[Reserved]
114	Electric plant acquisition adjustments
115	Accumulated provision for amortization of electric plant acquisition adjustments (Major only)
116	Other electric plant adjustments
118	Other utility plant
119	Accumulated provision for depreciation and amortization of other utility plant
120.1	Nuclear fuel in process of refinement, conversion, enrichment and fabrication (Major only)
120.2	Nuclear fuel materials and assemblies - Stock account (Major only)
120.3	Nuclear fuel assemblies in reactor (Major only)
120.4	Spent nuclear fuel (Major only)
120.5	Accumulated provision for amortization of nuclear fuel assemblies (Major only)
120.6	Nuclear fuel under capital leases (Major only)

2. OTHER PROPERTY AND INVESTMENTS

121	Nonutility property
122	Accumulated provision for depreciation and amortization of nonutility property
123	Investment in associated companies (Major only)
123.1	Investment in subsidiary companies (Major only)
124	Other investments
125	Sinking funds (Major only)
126	Depreciation fund (Major only)

FERC Uniform System of Accounts Listing

Account No.	Account Description
127	Amortization fund - Federal (Major only)
128	Other special funds (Major only)
129	Special funds (Nonmajor only)
	3. CURRENT AND ACCRUED ASSETS
130	Cash and working funds (Nonmajor only)
131	Cash (Major only)
132	Interest special deposits (Major only)
133	Dividend special deposits (Major only)
134	Other special deposits (Major only)
135	Working funds (Major only)
136	Temporary cash investments
141	Notes receivable
142	Customer accounts receivable
143	Other accounts receivable
144	Accumuldate provision for uncollectible accounts - credit
145	Notes receivable from associated companies
146	Accounts receivable from associated companies
151	Fuel stock (Major only)
152	Fuel stock expenses undistributed (Major only)
153	Residuals (Major only)
154	Plant materials and operating supplies
155	Merchandise (Major only)
156	Other materials and supplies (Major only)
157	Nuclear materials held for sale (Major only)
158.1	Allowance inventory
158.2	Allowances withheld
163	Stores expense undistributed (Major only)
165	Prepayments
171	Interest and dividends receivable (Major only)
172	Rents receivable (Major only)
173	Accrued utility revenues (Major only)
174	Miscellaneous current and accrued assets
	4. DEFERRED DEBITS
181	Unamortized debt expense
182.1	Extraordinary property losses
182.2	Unrecovered plant and regulatory study costs
182.3	Other regulatory assets
183	Preliminary survey and investigation charges (Major only)
184	Clearing accounts (Major only)
185	Temporary facilities (Major only)

FERC Uniform System of Accounts Listing

Account No.	**Account Description**
186	Miscellaneous deferred debits
187	Deferred losses from disposition of utility plant
188	Research, development, and demonstration expenditures (Major only)
189	Unamortized loss on reacquired debt
190	Accumulated deferred income taxes
	LIABILITIES AND OTHER CREDITS
	5. PROPRIETARY CAPITAL
201	Common stock issued
202	Common stock subscribed (Major only)
203	Common stock liability for conversion (Major only)
204	Preferred stock issued
205	Preferred stock subscribed (Major only)
206	Preferred stock liability for conversion (Major only)
207	Premium on capital stock (Major only)
208	Donations received from stockholders (Major only)
209	Reduction in par or stated value of capital stock (Major only)
210	Gain on resale or cancellation of reacquired capital stock (Major only)
211	Miscellaneous paid-in capital
212	Installments received on capital stock
213	Discount on capital stock
214	Capital stock expense
215	Appropriated retained earnings
215.1	Appropriated retained earnings - Amortization reserve, Federal
216	Unappropriated retained earnings
216.1	Unappropriated undistributed subsidiary earnings (Major only)
217	Reacquired capital stock
218	Noncorporate proprietorship (Nonmajor only)
	6. LONG-TERM DEBT
221	Bonds
222	Reacquired bonds (Major only)
223	Advances from associated companies
224	Other long-term debt
225	Unamortized premium on long-term debt
226	Unamortized discount on long-term debt - Debit
	7. OTHER NONCURRENT LIABILITIES
227	Obligations under capital lease--noncurrent
228.1	Accumulated provision for property insurance
228.2	Accumulated provision for injuries and damanges
228.3	Accumulated provision for pensions and benefits

FERC Uniform System of Accounts Listing

Account No.	Account Description
228.4	Accumulated miscellaneous operating provisions
229	Accumulated provision for rate refunds
	8. CURRENT AND ACCRUED AND LIABILITIES
231	Notes payable
232	Accounts payable
233	Notes payable to associated companies
234	Accounts payable to associated companies
235	Customer deposits
236	Taxes accrued
237	Interest accrued
238	Dividends declared (Major only)
239	Matured long-term debt (Major only)
240	Matured interest (Major only)
241	Tax collections payable (Major only)
242	Miscellaneous current and accrued liabilities
243	Obligations under capital lease--current
	9. DEFERRED CREDITS
251	[Reserved]
252	Customer advances for construction
253	Other deferred credits
254	Other regulatory liabilities
255	Accumulated deferred investment tax credits
256	Deferred gains from disposition of utility plant
257	Unamortized gain on reacquired debt
281	Accumulated deferred income taxes - Accelerated amortization property
282	Accumulated deferred income taxes - Other Property
283	Accumulated deferred income taxes - Other

Electric Plant Chart of Accounts

	1. INTANGIBLE PLANT
301	Organization
302	Franchises and consents
303	Miscellaneous intangible plant
	2. PRODUCTION PLANT
310-346	Various

FERC Uniform System of Accounts Listing

Account No.	Account Description
	3. TRANSMISSION PLANT
350	Land and land rights
351	[Reserved]
352	Structures and improvements
353	Station equipment
354	Towers and fixtures
355	Poles and fixtures
356	Overhead conductors and devices
357	Underground conduit
358	Underground conductors and devices
359	Roads and trails
	4. DISTRIBUTION PLANT
360	Land and land rights
361	Structures and improvements
362	Station equipment
363	Storage battery equipment
364	Poles, towers and fixtures
365	Overhead conductors and devices
366	Underground conduit
367	Underground conductors and devices
368	Line transformers
369	Services
370	Meters
371	Installations on customers' premises
372	Leased property on customers' premises
373	Street lighting and signal systems
	5. GENERAL PLANT
389	Land and land rights
390	Structures and improvements
391	Office furniture and equipment
392	Transportation equipment
393	Stores equipment
394	Tools, shop and garage equipment
395	Laboratory equipment
396	Power operated equipment
397	Communication equipment
398	Miscellaneous equipment
399	Other tangible property

FERC Uniform System of Accounts Listing

Account No.	Account Description

Income Chart of Accounts

1. UTILITY OPERATING INCOME

400	Operating revenues
401	Operation expense
402	Maintenance expense
403	Depreciation expense
404	Amortization of limited-term electric plant
405	Amortization of other electric plant
406	Amortization of electric plant acquisition adjustments
407	Amortization of property losses, unrecovered plant and regulatory study costs
407.3	Regulatory debits
407.4	Regulatory credits
408	[Reserved]
408.1	Taxes other than income taxes, utility operating income
409	[Reserved]
409.1	Income taxes, utility operating income
410	[Reserved]
410.1	Provisions for deferred income taxes, utility operating income
411	[Reserved]
411.1	Provision for deferred income taxes - Credit, utility operating income
411.3	[Reserved]
411.4	Investment tax credit adjustments, utility operations
411.6	Gains from disposition of utility plant
411.7	Losses from disposition of utility plant
411.8	Gains from disposition of allowances
411.9	Losses from disposition of allowances
412	Revenues from electric plant leased to others
413	Expenses of electric plant leased to others
414	Other utility operating income

2. OTHER INCOME AND DEDUCTIONS

A. OTHER INCOME

415	Revenues from merchandising, jobbing, and contract work
416	Costs and expenses of merchandising, jobbing, and contract work
417	Revenues from nonutility operations
417.1	Expenses of nonutility operations
418	Nonoperating rental income
418.1	Equity in earnings of subsidiary companies (Major only)
419	Interest and dividend income
419.1	Allowance for other funds used during construction

FERC Uniform System of Accounts Listing

Account No.	Account Description
420	Investment tax credits
421	Miscellaneous nonoperating income
421.1	Gain on disposition of property
	B. OTHER INCOME DEDUCTIONS
421.2	Loss on disposition of property
425	Miscellaneous amortization
426	[Reserved]
426.1	Donations
426.2	Life insurance
426.3	Penalties
426.4	Expenditures of certain civic, political and related activities
426.5	Other deductions
	C. TAXES APPLICABLE TO OTHER INCOME AND DEDUCTIONS
408.2	Taxes other than income taxes, other income and deductions
409.2	Income tax, other income and deductions
409.3	Income taxes, extraordinary items
410.2	Provision for deferred income taxes, other income and deductions
411.2	Provision for deferred income taxes - Credit, other income and deductions
411.5	Investment tax credit adjustments, nonutility operations
420	Investment tax credits
	3. INTEREST CHARGES
427	Interest on long-term debt
428	Amortization of debt discount and expense
428.1	Amortization of loss on reacquired debt
429	Amortization of premium on debt - Cr.
429.1	Amortization of gain on reacquired debt - Credit
430	Interest on debt to associated companies
431	Other interest expense
432	Allowance for borrowed funds used during construction - Credit
	4. EXTRAORDINARY ITEMS
434	Extraordinary income
435	Extraordinary deductions

FERC Uniform System of Accounts Listing

Account No.	Account Description
Operating Revenue Chart of Accounts	
	1. SALES OF ELECTRICITY
440	Residential sales
442	Commercial and industrial sales
444	Public street and highway lighting
445	Other sales to public authorities (Major only)
446	Sales to railroads and railways (Major only)
447	Sales for resale
448	Interdepartmental sales
449	Other sales (Nonmajor only)
449.1	Provision for rate refunds
	2. OTHER OPERATING REVENUES
450	Forfeited discounts
451	Miscellaneous service revenues
453	Sales of water and water power
454	Rent from electric property
455	Interdepartmental rents
456	Other electric revenues
Operation and Maintenance Expense Chart of Accounts	
	1. POWER PRODUCTION EXPENSES
500-557	Various
	2. TRANSMISSION EXPENSES
	Operation
560	Operation supervision and engineering
561	Load dispatching (Major only)
562	Station expenses (Major only)
563	Overhead line expenses (Major only)
564	Underground line expenses (Major only)
565	Transmission of electricity by others (Major only)
566	Miscellaneous transmission expenses (Major only)
567	Rents
567.1	Operation supplies and expenses (Nonmajor only)

FERC Uniform System of Accounts Listing

Account No.	Account Description
	Maintenance
568	Maintenance supervision and engineering (Major only)
569	Maintenance of structures (Major only)
570	Maintenance of station equipment (Major only)
571	Maintenance of overhead lines (Major only)
572	Maintenance of underground lines (Major only)
573	Maintenance of miscellaneous transmission plant (Major only)
574	Maintenance of transmission plant (Nonmajor only)
	3. DISTRIBUTION EXPENSES
	Operation
580	Operation supervision and engineering
581	Load dispatching (Major only)
5811	Line and station expenses (Nonmajor only)
582	Station expenses (Major only)
583	Overhead line expenses (Major only)
584	Underground line expenses (Major only)
585	Street lighting and signal system expenses
586	Meter expenses
587	Customer installations expenses
588	Miscellaneous distribution expenses
589	Rents
	Maintenance
590	Maintenance supervision and engineering (Major only)
591	Maintenance of structures (Major only)
592	Maintenance of station equipment (Major only)
592.1	Maintenance of structures and equipment (Nonmajor only)
593	Maintenance of overhead lines (Major only)
594	Maintenance of underground lines (Major only)
594.1	Maintenance of lines (Nonmajor only)
595	Maintenance of line transformers
596	Maintenance of street lighting and signal systems
597	Maintenance of meters
598	Maintenance of miscellaneous distribution plant
	4. CUSTOMER ACCOUNTS EXPENSES
	Operation
901	Supervision (Major only)
902	Meter reading expenses
903	Customer records and collection expenses
904	Uncollectible accounts
905	Miscellaneous customer accounts expenses (Major only)

FERC Uniform System of Accounts Listing

Account No.	Account Description
	5. CUSTOMER SERVICE AND INFORMATIONAL EXPENSES
	Operation
906	Customer service and informational expenses (Nonmajor only)
907	Supervision (Major only)
908	Customer assistance expenses (Major only)
909	Information and instructional advertising expenses (Major only)
910	Miscellaneous customer service and information expenses (Major only)
	6. SALES EXPENSES
	Operation
911	Supervision (Major only)
912	Demonstrating and selling expenses (Major only)
913	Advertising expenses (Major only)
916	Miscellaneous sales expenses (Major only)
917	Sales expenses (Nonmajor only)
	7. ADMINISTRATIVE AND GENERAL EXPENSES
	Operation
920	Administrative and general salaries
921	Office supplies and expenses
922	Administrative expenses transferred - Credit
923	Outside service employed
924	Property insurance
925	Injuries and damages
926	Employee pensions and benefits
927	Franchise requirements
928	Regulatory commission expenses
929	Duplicative charges - Credit
930.1	General advertising expenses
930.2	Miscellaneous general expenses
931	Rents
933	Transportation expenses (Nonmajor only)
	Maintenance
935	Maintenance of general plant