HANDY WHITMAN INDEX
Cost Trends of Electric Utility Construction
South Central Region (1973=100)

| Line | CONSTRUCTION AND EQUIPMENT | COST INDEX NUMBERS 1982 | 1983 | 1984 | 1985 | 1986 | 1987 | 1988 | 1989 | 1990 | 1991 | 1992 | 1993 | 1994 | 1995 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| 31 | | | | | | | | | | | | | | | |
| 32 | **Transmission Plant** | | | | | | | | | | | | | | |
| **33** | **Total Transmission Plant** | **231** | **237** | **239** | **241** | **241** | **240** | **262.8** | **275.3** | **285** | **289.3** | **290.3** | **298.8** | **314.3** | **327** |
| 34 | Station Equipment | 239 | 240 | 245 | 247 | 247 | 252 | 261 | 273.8 | 290.8 | 291.8 | 298.5 | 308 | 323.8 | 335 |
| 35 | Towers & Fixtures | 221 | 228 | 238 | 239 | 240 | 244 | 250.5 | 255.5 | 256.8 | 247.3 | 249.5 | 259.3 | 273 | 282 |
| 36 | Poles & Fixtures | 230 | 235 | 240 | 241 | 243 | 244 | 261.5 | 281.3 | 291.8 | 311.3 | 324.5 | 330 | 352 | 360 |
| 37 | Overhead Conductors & Devices | 235 | 252 | 244 | 242 | 243 | 232 | 300.5 | 309 | 311.3 | 319.5 | 300.3 | 308.8 | 321.5 | 346 |
| 38 | Underground Conduit | 228 | 233 | 233 | 231 | 229 | 231 | 240.3 | 252.8 | 252 | 248.8 | 246.3 | 249.3 | 254.8 | 256 |
| 39 | Underground Conductors & Devices | 254 | 257 | 253 | 244 | 267 | 269 | 280.8 | 302.3 | 354 | 396.5 | 403 | 405.8 | 410.3 | 417 |
| 40 | | | | | | | | | | | | | | | |
| 41 | **Distribution Plant** | | | | | | | | | | | | | | |
| **42** | **Total Distribution Plant** | **232** | **238** | **240** | **241** | **241** | **241** | **252.8** | **264** | **271** | **274.5** | **274.8** | **279** | **289** | **296** |
| 43 | Station Equipment | 231 | 233 | 235 | 237 | 238 | 244 | 265 | 285.8 | 304 | 305 | 303 | 305.3 | 316.8 | 329 |
| 44 | Poles, Towers & Fixtures | 239 | 241 | 244 | 245 | 245 | 245 | 249.8 | 258 | 266.8 | 277 | 288 | 295 | 314.3 | 323 |
| 45 | Overhead Conductors & Devices | 236 | 248 | 250 | 250 | 249 | 244 | 285.3 | 294.3 | 295.3 | 301.5 | 289.5 | 298.3 | 313 | 331 |
| 46 | Underground Conduit | 211 | 225 | 228 | 224 | 222 | 224 | 233.3 | 253.3 | 251.5 | 243.8 | 240.3 | 243.3 | 251 | 254 |
| 47 | Underground Conductors & Devices | 215 | 217 | 216 | 221 | 230 | 233 | 235 | 249.3 | 259.5 | 265 | 265.8 | 267.3 | 270.8 | 279 |
| 48 | Line Transformers | 209 | 212 | 214 | 215 | 216 | 214 | 215 | 222.8 | 226 | 225.3 | 228.8 | 229.3 | 233.8 | 230 |
| 49 | Pad Mounted Transformers | 190 | 192 | 208 | 209 | 215 | 236 | 257.5 | 271.5 | 277 | 285.8 | 284 | 290 | 291.5 | 291 |
| 50 | Services-Overhead | 211 | 215 | 229 | 225 | 223 | 226 | 242.5 | 255.8 | 255 | 255 | 249 | 253 | 265 | 275 |
| 51 | Services-Underground | 182 | 201 | 204 | 185 | 178 | 189 | 201.5 | 218 | 220 | 210 | 205 | 203.8 | 213 | 218 |
| 52 | Meters Installed | 192 | 205 | 206 | 207 | 212 | 210 | 195.3 | 185 | 185.3 | 198.8 | 197.3 | 198.8 | 189 | 285 |
| 53 | Street Lighting-Overhead | 264 | 265 | 276 | 284 | 282 | 267 | 267.8 | 276.3 | 284.3 | 293.5 | 301.5 | 313 | 328.8 | 340 |
| 54 | Mast Arms & Luminaires Installed | 264 | 270 | 288 | 298 | 289 | 277 | 276.8 | 290.5 | 299.3 | 311.3 | 321 | 329.3 | 350 | 360 |
| 55 | Street Lighting-Underground | 269 | 270 | 279 | 286 | 284 | 268 | 268 | 275.3 | 283 | 291.5 | 298.8 | 310.5 | 323 | 335 |
| 56 | | | | | | | | | | | | | | | |

HANDY WHITMAN INDEX
Cost Trends of Electric Utility Construction
South Central Region (1973=100)

| Line | CONSTRUCTION AND EQUIPMENT | COST INDEX NUMBERS | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | | | | | | 2002 | | 2003 | | 2004 | |
| | | 1996 | 1997 | 1998 | 1999 | 2000 | Jan 1 | Jul. 1 | Jan 1 | Jul 1 | Jan 1 | Jul 1 | Jan 1 | Jul 1 |
| 31 | | | | | | | | | | | | | | |
| 32 | **Transmission Plant** | | | | | | | | | | | | | |
| 33 | **Total Transmission Plant** | **335** | **339** | **346** | **341** | **360** | **369** | **375** | **379** | **376** | **377** | **375** | **384** | **410** |
| 34 | Station Equipment | 337 | 342 | 351 | 355 | 380 | 390 | 396 | 399 | 400 | 402 | 396 | 400 | 441 |
| 35 | Towers & Fixtures | 296 | 302 | 305 | 314 | 325 | 329 | 336 | 340 | 341 | 343 | 344 | 368 | 376 |
| 36 | Poles & Fixtures | 375 | 382 | 386 | 376 | 379 | 385 | 394 | 400 | 395 | 395 | 397 | 407 | 411 |
| 37 | Overhead Conductors & Devices | 352 | 352 | 363 | 334 | 359 | 372 | 378 | 381 | 368 | 369 | 370 | 376 | 404 |
| 38 | Underground Conduit | 261 | 261 | 268 | 274 | 278 | 283 | 286 | 293 | 296 | 298 | 297 | 308 | 328 |
| 39 | Underground Conductors & Devices | 423 | 422 | 425 | 433 | 434 | 444 | 423 | 428 | 431 | 435 | 436 | 440 | 490 |
| 40 | | | | | | | | | | | | | | |
| 41 | **Distribution Plant** | | | | | | | | | | | | | |
| 42 | **Total Distribution Plant** | **298** | **297** | **303** | **303** | **310** | **316** | **320** | **326** | **326** | **329** | **331** | **335** | **355** |
| 43 | Station Equipment | 327 | 329 | 342 | 345 | 348 | 351 | 352 | 354 | 346 | 348 | 346 | 351 | 395 |
| 44 | Poles, Towers & Fixtures | 331 | 335 | 337 | 339 | 344 | 349 | 354 | 359 | 363 | 364 | 368 | 368 | 378 |
| 45 | Overhead Conductors & Devices | 338 | 337 | 346 | 335 | 359 | 371 | 376 | 383 | 378 | 384 | 387 | 394 | 413 |
| 46 | Underground Conduit | 260 | 262 | 266 | 273 | 283 | 288 | 291 | 298 | 307 | 308 | 305 | 316 | 319 |
| 47 | Underground Conductors & Devices | 285 | 283 | 288 | 293 | 301 | 309 | 295 | 300 | 299 | 299 | 301 | 303 | 320 |
| 48 | Line Transformers | 225 | 213 | 218 | 218 | 220 | 222 | 228 | 232 | 236 | 235 | 241 | 231 | 251 |
| 49 | Pad Mounted Transformers | 304 | 307 | 308 | 310 | 313 | 314 | 333 | 335 | 342 | 336 | 336 | 365 | 435 |
| 50 | Services-Overhead | 275 | 271 | 276 | 276 | 286 | 292 | 293 | 298 | 293 | 298 | 298 | 308 | 316 |
| 51 | Services-Underground | 217 | 216 | 211 | 209 | 220 | 225 | 220 | 223 | 229 | 229 | 229 | 233 | 234 |
| 52 | Meters Installed | 188 | 200 | 206 | 198 | 195 | 205 | 222 | 243 | 254 | 264 | 264 | 300 | 300 |
| 53 | Street Lighting-Overhead | 360 | 365 | 367 | 372 | 380 | 385 | 391 | 398 | 412 | 432 | 436 | 439 | 445 |
| 54 | Mast Arms & Luminaires Installed | 384 | 389 | 386 | 386 | 392 | 398 | 399 | 405 | 406 | 408 | 415 | 417 | 423 |
| 55 | Street Lighting-Underground | 354 | 359 | 362 | 368 | 377 | 383 | 390 | 397 | 415 | 441 | 444 | 448 | 452 |
| 56 | | | | | | | | | | | | | | |

HANDY WHITMAN INDEX
Cost Trends of Electric Utility Construction
South Central Region (1973=100)

| Line | CONSTRUCTION AND EQUIPMENT | COST INDEX NUMBERS | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | 2005 | | 2006 | | 2007 | | 2008 | | 2009 | | 2010 | |
| | | Jan. 1 | Jul. 1 | Jan. 1 | Jul. 1 | Jan 1 | Jul 1 | Jan. 1 | Jul. 1 | Jan. 1 | Jul 1 | Jan 1 | Jul 1 |
| 31 | | | | | | | | | | | | | |
| 32 | **Transmission Plant** | | | | | | | | | | | | |
| **33** | **Total Transmission Plant** | **424** | **438** | **458** | **475** | **497** | **513.7** | **539** | **565** | **576.6** | **527** | **557** | **559** |
| 34 | Station Equipment | 455 | 466 | 484 | 502 | 534 | 553.1 | 572 | 595 | 610 | 611 | 632 | 641 |
| 35 | Towers & Fixtures | 381 | 385 | 394 | 398 | 405 | 433.3 | 442 | 446 | 453 | 428 | 439 | 441 |
| 36 | Poles & Fixtures | 427 | 445 | 446 | 460 | 466 | 468.6 | 499 | 508 | 526 | 530 | 542 | 520 |
| 37 | Overhead Conductors & Devices | 422 | 449 | 497 | 529 | 555 | 569.6 | 617 | 680 | 686 | 478 | 554 | 561 |
| 38 | Underground Conduit | 358 | 358 | 367 | 373 | 384 | 377.6 | 389 | 430 | 441 | 421 | 427 | 433 |
| 39 | Underground Conductors & Devices | 495 | 512 | 551 | 555 | 562 | 567.2 | 746 | 784 | 788 | 799 | 797 | 789 |
| 40 | | | | | | | | | | | | | |
| 41 | **Distribution Plant** | | | | | | | | | | | | |
| **42** | **Total Distribution Plant** | **368** | **377** | **401** | **422** | **451** | **459** | **521** | **514** | **535** | **522** | **544** | **553** |
| 43 | Station Equipment | 409 | 415 | 437 | 447 | 476 | 491.1 | 506 | 525 | 534 | 533 | 552 | 559 |
| 44 | Poles, Towers & Fixtures | 395 | 399 | 404 | 414 | 424 | 425.5 | 435 | 450 | 467 | 467 | 481 | 478 |
| 45 | Overhead Conductors & Devices | 432 | 454 | 488 | 513 | 537 | 551.2 | 596 | 641 | 655 | 543 | 601 | 613 |
| 46 | Underground Conduit | 339 | 340 | 358 | 361 | 373 | 369.6 | 378 | 387 | 404 | 403 | 402 | 406 |
| 47 | Underground Conductors & Devices | 346 | 358 | 382 | 387 | 463 | 469.7 | 508 | 540 | 604 | 596 | 554 | 560.5 |
| 48 | Line Transformers | 262 | 269 | 305 | 345 | 392 | 398.9 | 585 | 489 | 516 | 539 | 566 | 592 |
| 49 | Pad Mounted Transformers | 467 | 516 | 534 | 626 | 659 | 790.1 | 610 | 727 | 697 | 634 | 639 | 618 |
| 50 | Services-Overhead | 329 | 337 | 356 | 355 | 373 | 373.6 | 396 | 406 | 417 | 379 | 403 | 412 |
| 51 | Services-Underground | 242 | 256 | 297 | 336 | 315 | 310.6 | 306 | 307 | 282 | 283 | 286 | 309 |
| 52 | Meters Installed | 287 | 287 | 288 | 294 | 296 | 301.8 | 306 | 307 | 311 | 311 | 325 | 325 |
| 53 | Street Lighting-Overhead | 461 | 469 | 483 | 549 | 568 | 577.8 | 591 | 622 | 690 | 702 | 725 | 674 |
| 54 | Mast Arms & Luminaires Installed | 450 | 465 | 488 | 519 | 534 | 544.9 | 536 | 546 | 669 | 665 | 676 | 690 |
| 55 | Street Lighting-Underground | 466 | 473 | 485 | 563 | 585 | 594.6 | 612 | 649 | 708 | 726 | 755 | 682 |
| 56 | | | | | | | | | | | | | |

HANDY WHITMAN INDEX
Cost Trends of Electric Utility Construction
South Central Region (1973=100)

| Line | CONSTRUCTION AND EQUIPMENT | COST INDEX NUMBERS | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | 2011 | | 2012 | | 2013 | | 2014 | | 2015 | | 2016 | |
| | | Jan 1 | Jul 1 | Jan 1 | Jul 1 | Jan 1 | Jul 1 | Jan 1 | Jul 1 | Jan 1 | Jul 1 | Jan 1 | Jul 1 |
| 31 | | | | | | | | | | | | | |
| 32 | **Transmission Plant** | | | | | | | | | | | | |
| **33** | **Total Transmission Plant** | **565** | **581** | **573** | **579** | **592** | **590** | **591** | **599** | **607** | **609** | **618** | **620** |
| 34 | Station Equipment | 657 | 663 | 671 | 679 | 699 | 690 | 694 | 707 | 718 | 724 | 728 | 731 |
| 35 | Towers & Fixtures | 454 | 458 | 470 | 469 | 482 | 472 | 474 | 481 | 487 | 489 | 491 | 495 |
| 36 | Poles & Fixtures | 521 | 524 | 529 | 532 | 537 | 539 | 529 | 532 | 537 | 531 | 541 | 545 |
| 37 | Overhead Conductors & Devices | 546 | 599 | 537 | 545 | 556 | 570 | 570 | 576 | 581 | 581 | 603 | 603 |
| 38 | Underground Conduit | 445 | 451 | 471 | 472 | 471 | 469 | 488 | 487 | 497 | 493 | 494 | 497 |
| 39 | Underground Conductors & Devices | 851 | 855 | 865 | 896 | 908 | 930 | 956 | 966 | 976 | 981 | 994 | 994 |
| 40 | | | | | | | | | | | | | |
| 41 | **Distribution Plant** | | | | | | | | | | | | |
| **42** | **Total Distribution Plant** | **563** | **578** | **582** | **592** | **606.5** | **616** | **627** | **634** | **648.5** | **648.5** | **658** | **658** |
| 43 | Station Equipment | 571 | 577 | 583 | 589 | 589 | 592 | 598 | 599 | 603 | 598 | 599 | 600 |
| 44 | Poles, Towers & Fixtures | 476 | 480 | 485 | 489 | 494 | 498 | 491 | 493 | 501 | 496 | 506 | 507 |
| 45 | Overhead Conductors & Devices | 620 | 661 | 630 | 640 | 661 | 676 | 687 | 699 | 716 | 718 | 738 | 738 |
| 46 | Underground Conduit | 418 | 420 | 434 | 434 | 436 | 436 | 443 | 444 | 456 | 455 | 455 | 457 |
| 47 | Underground Conductors & Devices | 594 5 | 608 5 | 642 | 665 5 | 653 | 680 | 672 5 | 685 | 680 5 | 689 5 | 670 5 | 670 5 |
| 48 | Line Transformers | 604 | 622 | 642 | 657 | 699 | 716 | 754 | 771 | 803 | 805 | 832 | 830 |
| 49 | Pad Mounted Transformers | 620 | 677 | 679 | 678 | 680 | 658 | 659 | 643 | 646 | 663 | 693 | 632 |
| 50 | Services-Overhead | 434 | 454 | 433 | 435 | 440 | 443 | 452 | 462 | 479 | 481 | 482 | 481 |
| 51 | Services-Underground | 349 | 367 | 390 | 410 | 416 | 418 | 414 | 370 | 398 | 392 | 363 | 358 |
| 52 | Meters Installed | 316 | 315 | 311 | 314 | 318 | 321 | 326 | 327 | 331 | 331 | 334 | 326 |
| 53 | Street Lighting-Overhead | 684 | 708 | 720 | 734 | 728 | 736 | 694 | 696 | 693 | 711 | 701 | 699 |
| 54 | Mast Arms & Luminaires Installed | 692 | 707 | 728 | 748 | 732 | 748 | 661 | 665 | 656 | 681 | 647 | 647 |
| 55 | Street Lighting-Underground | 697 | 723 | 733 | 746 | 742 | 749 | 716 | 717 | 718 | 736 | 728 | 726 |
| 56 | | | | | | | | | | | | | |

HANDY WHITMAN INDEX
Cost Trends of Electric Utility Construction
South Central Region (1973=100)

| Line | CONSTRUCTION AND EQUIPMENT | COST INDEX NUMBERS | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | 2017 | | 2018 | | 2019 | | 2020 | | 2021 | | 2022 | |
| | | Jan 1 | Jul. 1 | Jan 1 | Jul 1 | Jan 1 | Jul 1 | Jan 1 | Jul 1 | Jan 1 | Jul 1 | Jan 1 | Jul 1 |
| 31 | | | | | | | | | | | | | |
| 32 | **Transmission Plant** | | | | | | | | | | | | |
| **33** | **Total Transmission Plant** | **627** | **628** | **649.5** | **658** | **677** | **677** | **685** | **694** | **664** | **692.5** | **692.5** | |
| 34 | Station Equipment | 748 | 749 | 770 | 784 | 803 | 803 | 805 | 824 | 850 | 891 | 891 | |
| 35 | Towers & Fixtures | 503 | 493 | 505 | 520 | 531 | 531 | 517 | 518 | 550 | 603 | 603 | |
| 36 | Poles & Fixtures | 549 | 561 | 557 | 557 | 569 | 569 | 596 | 602 | 593 | 600 | 600 | |
| 37 | Overhead Conductors & Devices | 590 | 590 | 643 | 642 | 673 | 673 | 697 | 697 | 493 | 496 | 496 | |
| 38 | Underground Conduit | 515 | 519 | 523 | 531 | 543 | 543 | 560 | 558 | 575 | 600 | 600 | |
| 39 | Underground Conductors & Devices | 1007 | 1056 | 1111 | 1127 | 1178 | 1178 | 1199 | 1239 | 1276 | 1399 | 1399 | |
| 40 | | | | | | | | | | | | | |
| 41 | **Distribution Plant** | | | | | | | | | | | | |
| **42** | **Total Distribution Plant** | **672** | **684** | **698** | **710** | **732** | **732** | **763** | **776.5** | **773** | **796** | **796** | |
| 43 | Station Equipment | 614 | 620 | 639 | 648 | 662 | 662 | 673 | 673 | 691 | 722 | 722 | |
| 44 | Poles, Towers & Fixtures | 515 | 530 | 518 | 520 | 533 | 533 | 574 | 575 | 562 | 573 | 573 | |
| 45 | Overhead Conductors & Devices | 744 | 754 | 779 | 791 | 813 | 813 | 851 | 865 | 770 | 784 | 784 | |
| 46 | Underground Conduit | 471 | 473 | 485 | 489 | 499 | 499 | 515 | 515 | 529 | 547 | 547 | |
| 47 | Underground Conductors & Devices | 651.5 | 672.5 | 680.5 | 693 | 728 | 728 | 754.5 | 782.5 | 819.5 | 859 | 859 | |
| 48 | Line Transformers | 863 | 888 | 920 | 942 | 978 | 978 | 1014 | 1052 | 1089 | 1127 | 1127 | |
| 49 | Pad Mounted Transformers | 652 | 697 | 699 | 716 | 735 | 735 | 738 | 738 | 787 | 941 | 941 | |
| 50 | Services-Overhead | 490 | 493 | 468 | 483 | 472 | 472 | 506 | 505 | 501 | 504 | 504 | |
| 51 | Services-Underground | 361 | 378 | 403 | 417 | 422 | 422 | 447 | 448 | 462 | 465 | 465 | |
| 52 | Meters Installed | 329 | 329 | 334 | 334 | 338 | 338 | 355 | 355 | 363 | 363 | 363 | |
| 53 | Street Lighting-Overhead | 711 | 687 | 698 | 721 | 785 | 785 | 821 | 831 | 751 | 762 | 762 | |
| 54 | Mast Arms & Luminaires Installed | 667 | 616 | 637 | 669 | 786 | 786 | 762 | 781 | 638 | 663 | 663 | |
| 55 | Street Lighting-Underground | 739 | 716 | 729 | 750 | 805 | 805 | 854 | 862 | 796 | 801 | 801 | |
| 56 | | | | | | | | | | | | | |

# 2022 RATE CASE
# ONCOR ELECTRIC DELIVERY COMPANY LLC
# WORKPAPERS FOR
# THE DIRECT TESTIMONY OF
# GREGORY S. WILSON

The information is voluminous and is being provided in electronic format in compliance with RFP General Instruction No. 15. Portions of the information are confidential and will be made available only after execution of a certification to be bound by the draft protective order set forth in Section VII of this Rate Filing Package or a protective order issued in this docket.

Additionally, in accordance with RFP General Instruction No. 12(c), below is a list of the files that are being provided electronically:

Testimony Workpapers/Wilson

GSW Workpapers WP-1.pdf

Testimony Workpapers/Confidential/Wilson

Oncor Simulation 2021.xlxs
WP Voluminous Confidential Index.docx

**INDEX TO THE DIRECT TESTIMONY**
**OF ANGELA Y. GUILLORY, WITNESS FOR**
**ONCOR ELECTRIC DELIVERY COMPANY LLC**

## DIRECT TESTIMONY OF ANGELA GUILLORY

### I. POSITION AND QUALIFICATIONS

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

A. My name is Angela Y. Guillory. My business address is 1616 Woodall Rodgers Freeway, Dallas, Texas, 75202. I am currently the Senior Vice President of Human Resources and Corporate Affairs for Oncor Electric Delivery Company LLC ("Oncor" or "Company"). I am also a member of Oncor's Senior Leadership Team.

Q. PLEASE DESCRIBE YOUR EDUCATIONAL BACKGROUND AND PROFESSIONAL EXPERIENCE.

A. I received a Bachelor of Science Degree in Electrical Engineering from the University of Texas in Austin, Texas. I received a Masters of Business Administration from the University of North Texas in Denton, Texas. I have been employed in several roles in my 28-year career with Oncor, its predecessors and affiliates, including roles within the Human Resources ("HR") Department. I was hired by Oncor in January 2010 as a Director of External Affairs. I became the Vice President of Customer and Market Operations in 2013, the Vice President of Human Resources and Corporate Affairs in 2018, and assumed my current role of Senior Vice President of Human Resources and Corporate Affairs in 2020. Prior to joining Oncor, I served as the Vice President of Performance Optimization for TXU Energy for five years. My experience in HR includes developing and implementing the strategy, design, and administration of HR programs related to culture and business objectives, compensation, benefits, workforce strategy, staffing and recruiting, training, development, payroll, employee relations, and compliance.

Q. HAVE YOU PREVIOUSLY SUBMITTED TESTIMONY BEFORE THE PUBLIC UTILITY COMMISSION OF TEXAS ("COMMISSION")?

A. Yes. I filed testimony with the Commission in Docket No. 38929 and Docket No. 22350, the latter of which was filed under my maiden name, Angela Y. Williams.

## II. PURPOSE OF DIRECT TESTIMONY

Q. WHAT IS THE PURPOSE OF YOUR DIRECT TESTIMONY?

A. The purpose of my direct testimony is to: (1) provide a detailed discussion of Oncor's HR organization; (2) provide a discussion of Oncor's processes and programs to ensure the hiring, development, and retention of a skilled workforce; (3) describe Oncor's overall labor expense philosophy and the reasonableness and necessity of the test-year expense incurred by Oncor related to employee and executive compensation, including base and incentive pay; and (4) support the reasonableness and necessity of Oncor's related known and measureable labor expense adjustments.

Q. WHY IS IT IMPORTANT FOR THE COMMISSION TO APPROVE ONCOR'S REQUESTED LABOR EXPENSES, INCLUDING LABOR EXPENSE ADJUSTMENTS?

A. Oncor's labor expenses, including employee base compensation, incentive compensation programs, and benefits, and the regular adjustments made to our overall labor expenses are necessary to providing the services that the Company offers to its customers. The adjustments the Company regularly makes to compensation and benefits are key components to the Company's ability to recruit, retain, and reward a skilled workforce. Without such approval, Oncor risks not being able to effectively and competitively benchmark compensation and benefits against our peers in the industry, which threatens Oncor's ability to compete for talent necessary to provide safe and reliable service and encourage employee/team innovation in the achievement of results that support the fundamental objectives of the Company.

Q. DO YOU SPONSOR OR CO-SPONSOR ANY SCHEDULES IN THE RATE FILING PACKAGE ("RFP")?

A. Yes. I sponsor Schedules II-D-3.1 Payroll Information and II-D-3.5 Number of Employees. I co-sponsor Schedules II-D-3.6 Payments Other Than Compensation By Function, II-D-3.7 General Employee Benefit Information, II-D-3.8 Pension Expense, II-D-3.9 Postretirement Benefits Other than Pension and II-D-3.10 Administration Fees.

Q. WAS YOUR DIRECT TESTIMONY PREPARED BY YOU OR UNDER YOUR DIRECT SUPERVISION?

A. Yes. My direct testimony, exhibit, and the schedules that I sponsor or co-sponsor were prepared by me or under my direction, supervision, or control and are true and correct. I will address each topic in the same order reflected in the above listing.

## III. OVERVIEW OF HUMAN RESOURCES

Q. PLEASE DESCRIBE ONCOR'S HR ORGANIZATION.

A. I lead Oncor's HR organization, and Exhibit AG-1 to my direct testimony is an organization chart that depicts the various groups included within the HR organization. I describe below the leadership and activities performed by each of these groups:

Workforce Strategy, Employee, and Labor Relations

Kyle R. Davis has been with the Company for 38 years and has experience in nuclear operations and HR. He is the Senior Director of Workforce Strategy, Employee, and Labor Relations. This group is responsible for employment related compliance with applicable laws and regulations, employee relations and bargaining unit (union) relations, labor and workforce strategy, and staffing.

Total Rewards

Kerri D. Veitch has been with the Company for 13 years and is the Senior Director of Total Rewards. She is responsible for the strategy, design, and delivery of compensation and benefit programs, including executive compensation as well as payroll and the HR Information System.

Training and Development

Craig Cravey, Director of Training and Development, has 29 years with the Company, and over 39 years of experience in nuclear operations and in craft, technical, and corporate training. This team is responsible for training and development strategies and programs to support strategic business goals, including corporate-wide training programs for new employees, new managers and supervisors, and the Oncor Leader Model, in addition to administration of the Company's Learning Management System for on-line training and training records.

Corporate Security

Jim Stockton, Director of Corporate Security, has over 40 years of investigative experience and has 37 years with the Company. Mr. Stockton actively communicates with the United States Department of Homeland Security and receives briefings regarding threats to infrastructure. Our Corporate Security team provides security of the Company facilities as well as at large Company events within our service area.

Diversity, Equity, and Inclusion

Scott Trapp, Vice President of Diversity, Equity and Inclusion, joined the Company in November 2020. Oncor recruited Mr. Trapp to lead the refinement and execution of Oncor's diversity, equity, and inclusion strategy, including new and ongoing initiatives to build a more inclusive, equitable culture at Oncor based upon the foundation of a diverse workforce that resembles the customers and communities we serve. Mr. Trapp has over 20 years of experience in talent acquisition and diversity and inclusion.

Q. HOW MANY EMPLOYEES DID THE HR ORGANIZATION HAVE AS OF DECEMBER 31, 2021?

A. HR had 52 employees as of December 31, 2021.

## IV. HIRING, DEVELOPMENT, AND RETENTION OF A SKILLED WORKFORCE

Q. WHAT PROCESSES AND PROGRAMS DOES ONCOR HAVE IN PLACE TO ENSURE THE HIRING, DEVELOPMENT, AND RETENTION OF A SKILLED WORKFORCE?

A. Oncor's Talent Management Framework defines our comprehensive approach to creating and developing a high performing engaged workforce that owns the Company's success and positions the Company to meet future needs. This includes various strategies to attract, develop, and retain a talented workforce to meet current and future needs. Oncor's talent acquisition function cultivates and manages various pipelines for recruiting talent for craft, technician, and professional level roles. This includes partnerships with high schools, community colleges and universities, as well as trade and industry organizations. Oncor's compensation and benefits programs are important tools to recruit and retain highly qualified people from outside the organization and promote and retain employees from within. Oncor's performance management philosophy guides the process and tools used to manage, reward, and recognize employee performance and development against established goals. The Talent Development Framework, in furtherance of Oncor's performance management philosophy, provides programs and processes to train, develop, and retain our skilled workforce.

Q. WHAT ARE THE ELEMENTS OF ONCOR'S TALENT DEVELOPMENT FRAMEWORK?

A. The Talent Development Framework has three elements. The first element is "Foundational Components." This includes components such as our Core Values, our Code of Conduct, Workforce Diversity, Power On Deliver Strong (our Lean Six Sigma program), and our Competency Model.

The second element is "Training & Development Programs." The programs included in this element are used to train and develop our employees in technical and professional job skills, leadership, and our company culture.

The third element is "Recognition Elements." This element includes programs and tools to recognize, reward, incent, and nurture our deep talent pool. It also provides opportunities for increasingly larger and more responsible roles and special project assignments.

## V. <u>ONCOR LABOR COST</u>

### A. Total Rewards Philosophy

Q. WHAT IS THE PURPOSE OF YOUR DIRECT TESTIMONY WITH REGARD TO ONCOR'S LABOR COST?

A. Below, I discuss Oncor's approach to employee and executive compensation, including both base and incentive pay, and I support the reasonableness and necessity of Oncor's overall labor cost.

Q. DO OTHER ONCOR WITNESSES ALSO ADDRESS ONCOR'S LABOR COST AND OTHER LABOR-RELATED MATTERS?

A. Yes. While I address Oncor's labor expense at an overall transmission and distribution ("T&D") level, Company witness Mr. Wesley R. Speed discusses the employees and groups that make up Oncor's Transmission organization in his direct testimony, and Company witness Mr. Keith Hull discusses Oncor's distribution labor requirements in detail in his direct testimony. Additionally, Company witness Mr. Greer discusses Oncor's overall T&D goals and operations that determine the levels of staffing necessary for Oncor to meet its service obligations. Mr. Greer also supports the inclusion of Oncor's labor cost in the Company's cost of service. Finally, the direct testimony of Company witness Mr. Joel S. Austin discusses Oncor's existing outsourcing relationships and staffing of the Technology, Measurement & Billing Services, and Customer Engagement organization.

Q. PLEASE DESCRIBE ONCOR'S PHILOSOPHY ON WAGES AND BENEFITS.

A. Oncor's approach to employee compensation, including executive compensation, is based on the following key principles that are intended to serve as guidelines in the development and administration of the Company's total compensation programs:

- compensation programs, in combination with benefit and other programs, should attract, retain, and motivate the appropriate talent necessary to provide safe and reliable service pursuant to Oncor's tariffs;
- compensation and benefits are designed to be market-competitive, performance-driven, and balance the diverse needs of our workforce;
- base pay and incentive compensation programs are designed to reflect the appropriate mix of base and incentive pay in the relevant markets;
- compensation programs are intended to encourage employee/team innovation and creativity in the achievement of results that support the fundamental objectives of the Company;
- compensation programs are designed to support career development, facilitate the promotion of effective, talented people from within, and help recruit highly qualified people from outside the organization;
- incentive compensation programs are based on operational performance measures that improve the services we provide;
- compensation programs are reviewed annually to ensure programs are current, results-oriented, cost-effective, and internally equitable with pay differentiation for levels of performance;
- benefit programs are designed to be, among other things, available to help protect employees and their families financially in the event of a serious illness, injury, disability, or death, and should also provide cost- and tax-effective capital accumulation options; and

- compensation and benefit programs comply with all applicable laws and regulations.

These fundamentals comprise Oncor's Total Rewards philosophy.

Q. WHAT IS ONCOR'S TARGETED COMPENSATION POSITION IN RELATION TO THE MARKET?

A. Oncor's base salaries continue to be targeted around the median ($50^{th}$ percentile) of the appropriate market with incentive opportunities that could bring total cash compensation to the $75^{th}$ percentile or above, based on individual and Company performance.

Q. HOW DOES ONCOR DETERMINE WAGES AND BENEFITS?

A. The Oncor compensation team conducts market assessments each year to determine the competitiveness of Oncor's compensation programs against utility/energy services companies and general industry companies. The process begins with the completion of independent salary surveys covering a broad array of functional areas within Oncor. Upon receipt of the completed survey information from multiple surveys from third-party organizations and consulting firms such as World at Work, Aon Hewitt Associates, Willis Towers Watson, Mercer, and Southwest Human Resources Group, an analysis is conducted of competitive market information in relation to Oncor benchmark positions. The analysis includes market data for planned and actual salary increases from salary benchmark surveys for companies in the utility/energy services and general industry segments. This data is used by the compensation team in establishing merit budget and salary structure movement recommendations. The analysis of the market data results in the following information:

- actual base salary and total cash compensation in comparison to market median ($50^{th}$ percentile) for Oncor benchmark positions. This index is an indicator of how Oncor's current pay compares to market levels;

- actual midpoint base salary to market (50th percentile) base pay for Oncor benchmark positions. This index is an indicator of how the Oncor salary structures compare to market; and
- short-term incentive practices by pay grade.

Based on this information, the compensation team establishes a recommendation for the following:

- base salary structure movement;
- merit increase budget; and
- short-term incentive program updates (if necessary).

Those recommendations are presented to the HR leadership team, who reviews the recommendations in detail. If HR leadership agrees with the recommendations proposed by the compensation team, those recommendations are presented to Company management for consideration and approval.

Q. HOW OFTEN ARE WAGES AND BENEFITS REVIEWED AND ADJUSTED?

A. Company management reviews compensation programs on an annual basis as outlined above. Changes and adjustments to the benefit programs are less frequent than for the compensation programs. Cost and competitiveness of the benefit programs are reviewed periodically by the Total Rewards team. No significant adjustments to the current benefit plan designs are contemplated at this time, other than those that may be required by law.

Q. HOW DOES ONCOR ENSURE THAT WAGES AND BENEFITS ARE SET AT APPROPRIATE LEVELS?

A. Oncor relies on the market assessments I discussed above. Those market assessments determine the competitiveness of Oncor's compensation and benefit programs against appropriate market segments and peer companies. Oncor targets the market-median levels of compensation for its workforce.

Q. DOES ONCOR USE ANY THIRD-PARTY INFORMATION OR BENCHMARKING TO ENSURE THAT WAGES AND BENEFITS ARE SET AT APPROPRIATE LEVELS?

A. Yes. As I mentioned earlier, Oncor uses an analysis of third-party benchmark salary and benefit data to determine salary and benefit program designs. Salary benchmark surveys focus on participants in the utility/energy services and general industry segments.

Q. DO ONCOR EMPLOYEES RECEIVE INCENTIVE COMPENSATION?

A. Yes, most non-executive Oncor employees are eligible to participate in the Company's Performance Enhancement Plan ("PEP"). PEP is an annual incentive program that rewards employees when performance goals are achieved. Payout is based on actual performance results compared with established operational performance metrics and is subject to an individual performance modifier. The performance metrics include multiple levels of achievement corresponding to different award opportunities, which are established at the Company level. Each year, Company management develops a scorecard with specific operational performance metrics, such as safety, reliability, operational efficiency (determined as operation and maintenance expense and sales, general and administrative expense on a cost per customer basis to promote lower rates for customers by keeping expenses low), and infrastructure readiness (measured by a metric based on capital expenditures per three year average kW peak). The operational metrics on the scorecard may be weighted at different levels. Actual results, as compared to the metrics on the scorecard, are used by Company management to determine the ultimate funding and payout levels in the aggregate.

Target annual incentive awards for non-executive employees can range from 5% to 40% of base salary. For the 2021 Plan Year (payouts in March 2022), Oncor paid out approximately $46.4 million for the PEP program.

Q. HOW DOES THE PAYOUT FOR THE 2021 PLAN YEAR COMPARE WITH AVERAGE EXPECTED PAYOUTS?

A: The actual payout for the 2021 Plan Year was based on our scorecard weighting of safety, reliability, operational efficiency and infrastructure readiness. Oncor's performance is then measured against the threshold for funding, the target, superior, or aspirational performance measures. For the 2021 plan year, Oncor performed well against each of the operational performance goals, and the PEP payouts were made at the 127.4% level, which equates to exceeding Oncor's threshold levels. Over time, it is expected that the PEP payout will average about 120% of the base annual incentive level.

Q: HAS ONCOR'S INCENTIVE COMPENSATION PLAN CHANGED SINCE THE COMPANY'S LAST BASE-RATE CASE?

A. Yes. Oncor's PEP incentive compensation plan for non-executives has changed since the last base-rate case (Docket No. 46957) that was filed in 2017. Effective as of January 1, 2020, Oncor updated certain aspects of the PEP program to reflect changes in nomenclature and administration of the program. Before January 1, 2020, Oncor's earnings before interest, taxes, depreciation, and amortization ("EBITDA") was considered in determining overall funding for the incentive program. Since the modification of the PEP program, the considerations are safety, reliability, operational efficiency and infrastructure readiness, without taking into account EBITDA. The incentive compensation plan continues to clearly and closely align the incentive compensation that is paid to employees with the achievement of clearly defined operational performance goals. For example, the operations and maintenance ("O&M") and other support, general, and administrative ("SG&A") goal is measured on a per-customer basis so that any associated incentive compensation that is paid out is more directly a function of Company operational efficiencies that are achieved. This measure of operational efficiencies does not take into account the financial performance of the Company.

Q. IS ONCOR'S INCENTIVE COMPENSATION PLAN REASONABLE AND NECESSARY?

A. Yes. The PEP incentive compensation plan continues to be based on operational criteria and is part of the overall compensation paid to Oncor employees. This type of compensation is necessary both to attract and retain the high-quality employees who are essential for Oncor to provide safe and reliable service to the public pursuant to the requirements of the Public Utility Regulatory Act ("PURA"), the Commission's rules, and the Company's tariffs.

Q. WHAT LEVEL OF COST WAS INCURRED BY ONCOR FOR LABOR AND BENEFITS DURING THE TEST-YEAR?

A. During the test-year ended December 31, 2021, Oncor incurred more than $925.4 M in costs related to employee salaries, wages, and benefits. As shown in the Company's RFP Schedules, the test-year level labor-related cost is approximately $603 M (as summarized on RFP Schedule _II-D-3.4), $75.8 M of compensation other than standard compensation (as summarized on RFP Schedule II-D-3.6), and $246.5 M of general employee benefit expense, which includes pension and other post-retirement employee benefits (as summarized on RFP Schedules II-D-3.7 – 3.10).

Q. WERE THE COSTS INCURRED BY ONCOR DURING THE TEST-YEAR FOR WAGES AND BENEFITS REASONABLE AND NECESSARY?

A. Yes. Oncor continues to have a highly experienced and skilled workforce. Whether those employees are directly involved in maintaining and operating

Oncor's T&D system or work in the other business units that support the Company's functions, they are essential for Oncor to provide service to the public pursuant to the Commission's rules and the Company's tariffs. Oncor goes to great lengths, as I describe above, to ensure that the wages and benefits provided to Oncor employees are set at appropriate levels. Accordingly, the cost associated with the wages and benefits paid by Oncor are reasonable and necessary. Adjustments to the test-year level of labor and labor-related costs, which are also reasonable and necessary, are discussed separately below.

## B. Executive Compensation

Q. PLEASE DESCRIBE ONCOR'S EXECUTIVE COMPENSATION PROGRAM.

A. To attract and retain the executive leadership of the Company, Oncor's Board of Directors utilizes a compensation program for executives and is advised by the executive compensation consulting firm of PricewaterhouseCoopers. The executive compensation program is reviewed annually and includes base pay, annual incentive pay, long-term incentive pay, and other benefits.

<u>Base Pay</u>

The program targets base pay at the median or 50th percentile considering peer and general industry companies.

<u>Annual Incentive Pay</u>

In addition to a base salary that is market competitive, the program includes an annual incentive compensation opportunity, based on operational performance, through the Executive Annual Incentive Plan ("EAIP"). The EAIP is similar to the Company's PEP for non-executives. Under the EAIP, the final funding percentage for a plan participant is equal to the achieved operational funding percentage, unless the operational funding percentage is less than 50% or more than 150%, in which case the percentage will be

50% or 150%, respectively. An individual executive's award will then be calculated using the target award, final funding percentage and any other performance modifiers applied by the Organization & Compensation Committee ("O&C Committee") of the Oncor Board of Directors. The performance metrics for EAIP are identical to PEP, but the targeted bonus percentages are higher, putting more pay at risk, and the individual performance modifiers applied by the O&C Committee have a wider range, also putting more pay at risk. For the test-year ended December 31, 2021, Oncor paid out approximately $6.16 million for the EAIP program in March, 2022.

Long-Term Incentive Pay

Long-term incentive pay is a necessary component of the Company's executive compensation program to continue to successfully attract, retain, and motivate executives and key employees who are committed to and capable of supporting Oncor's provision of safe and reliable service to the public consistent with the requirements of PURA, the Commission's rules, and Oncor's tariffs. Beginning in 2013, the long-term, performance-based, at-risk portion of executive compensation has been provided through the Oncor Long-Term Incentive Program ("LTIP"). Oncor executives and other key employees are eligible to participate, and target awards are set based on market data of Oncor's industry peers. The LTIP operational performance metrics are similar to EAIP and PEP, but are cumulative over a three-year period. For example, awards paid in March 2022 cover operational performance over 2019, 2020 and 2021. For performance periods starting in 2020 or later, awards under the LTIP are calculated based on an individual's target award opportunity and Oncor's level of achievement of certain weighted performance goals, as adjusted by any modifiers set by the O&C Committee. The LTIP calculates these awards based solely on the performance metrics established by the O&C

Committee each year relating to operational performance, namely safety and reliability, and an adjustment for growth in net income. The final funding percentage under the LTIP will equal the weighted performance goal percentage, unless the weighted performance goal percentage is less than 50% or more than 150%, in which case the percentage will be 50% or 150%, respectively. Under the LTIP, an individual's final award is calculated as his or her target opportunity amount, as specified in the award agreement, multiplied by the final funding percentage.

Other Benefits

Oncor executives are eligible for all other benefits of a regular employee and are also eligible to participate in the Oncor Salary Deferral Program, as are non-officers at or above a specified pay grade with a qualifying minimum annual salary established each year. Officers are also eligible for Executive Financial Counseling and an Executive Annual Physical Examination.

Q. WHAT ARE THE REASONS THAT THE LTIP TAKES NET INCOME GROWTH INTO ACCOUNT IN CALCULATING AWARDS?

A. The LTIP uses net income growth over a three-year period as a component in calculating long term incentive compensation awards to align our financial performance with our investors" expectations. Oncor is making significant capital investments to serve the growing infrastructure needs of Texas, and its investors expect growth in net income as they fund these investments. Since this component is structured as an adder, the overall impact on the total award is small relative to the other two operational performance metrics. Incorporated in this way, management's focus on growth is balanced with our continued ability to perform on key operational metrics.

Pension and Other Postretirement Benefit Plans

Q. CAN YOU DESCRIBE ANY OTHER BENEFIT PLANS THAT HAVE CHANGED SINCE LAST REVIEWED BY THE COMMISSION?

A. Yes. Effective January 1, 2018, Oncor established a second other postemployment benefits plan ("OPEB"), the Shared Retiree Welfare Plan, to cover eligible retirees of Oncor and Vistra Energy whose employment services were assigned to both Oncor (or a predecessor regulated utility business) and the non-regulated business of Vistra Energy. Participants in the Shared Retiree Welfare Plan are known as "Shared Retirees." The Shared Retiree Plan is further described in the direct testimony of Company witnesses Mr. Alan S. Taper and Mr. Kevin R. Fease.

Q. WHY DID ONCOR ESTABLISH THE SHARED RETIREE WELFARE PLAN?

A. Because the non-regulated businesses were spun off to a separate company now known as Vistra Energy. Shared Retirees could no longer participate in the current Oncor Retiree Welfare Plan. Therefore, Oncor established the Shared Retiree Welfare Plan.

Q. WHY COULDN'T SHARED RETIREES PARTICIPATE IN THE ONCOR RETIREE WELFARE PLAN AFTER DECEMBER 31, 2017?

A. Vistra Energy was no longer affiliated with Oncor after its spin off on October 3, 2016. Therefore, participation of Vistra Energy employees in the Oncor Retiree Welfare Plan after December 31, 2017 would have caused that plan to be considered a multi-employer welfare arrangement ("MEWA") under applicable Department of Labor ("DOL") requirements. The Oncor Retiree Welfare Plan did not comply with the DOL MEWA requirements so a separate DOL-compliant plan, the Shared Retiree Welfare Plan, was created.

Q. WHAT DOL REQUIREMENTS DID THE ONCOR RETIREE WELFARE PLAN NOT SATISFY?

A. The Oncor Retiree Welfare Plan is self-funded for health care coverage, which is a common practice for larger employers like Oncor. However, MEWAs that are self-funded are subject to state insurance laws and must satisfy additional requirements which would be burdensome for Oncor. Therefore, the Shared Retiree Welfare Plan was established as a fully insured plan in order to comply with state insurance laws and satisfy the DOL requirements.

Q. ARE THE COVERAGE PROVISIONS OF THE SHARED RETIREEE WELFARE PLAN THE SAME AS THE ONCOR RETIREE WELFARE PLAN?

A. No. While the fully insured coverage of the Shared Retiree Welfare Plan is very similar to the Oncor Retiree Welfare Plan coverage, Oncor was unable to exactly replicate the coverage under a fully insured arrangement.

### C. Labor and Labor-Related Adjustments

Q. IS THE COMPANY PROPOSING ANY ADJUSTMENTS TO THE TEST-YEAR LEVEL OF LABOR AND LABOR-RELATED COSTS?

A. Yes. Based on the annual market assessment that I discussed above, Oncor management has determined that the test-year level of employment compensation expense is no longer representative of the current costs of labor and that it should be adjusted to remain market-competitive. Thus, for the Company to be able to continue to successfully attract, retain, and motivate employees who are committed to and capable of supporting Oncor's provision of safe and reliable service to the public consistent with the requirements of PURA, the Commission's rules, and Oncor's tariffs, Oncor is requesting a post-test-year adjustment to account for 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 that became effective at the end of 2021, and a 3.5% general base salary increase that became effective in March 2022 for all other employees. Company witness Mr. W. Alan Ledbetter addresses this adjustment in more detail in his direct testimony.

This known and measurable adjustment accounts for actual increases in labor expenses to ensure Oncor's compensation programs remain competitive against appropriate market segments and peer companies. Accordingly, I agree with and support Mr. Ledbetter's adjustment because these additional costs are reasonable and necessary to allow the Company to continue its high level of service and meet its regulatory obligations.

## VI. SUMMARY AND CONCLUSION

Q. PLEASE SUMMARIZE YOUR DIRECT TESTIMONY.

A. In my leadership role for Oncor's HR organization, I ensure that Oncor's compensation and benefit philosophy is aligned with the Company's objective to recruit and retain highly qualified personnel. Oncor utilizes compensation and benefits to manage, reward, and recognize employee performance and development against established goals. Oncor regularly benchmarks its compensation and benefit offerings against the market and receives market assessments from outside consultants to ensure that the compensation metrics and benefit plans it offers are aligned with utility and energy services industry segments. In summary, Oncor's overall labor expense philosophy and its labor expenses, including the associated known and measurable adjustment, as included in the Company's cost of service are reasonable and necessary for the provision of service to the public.

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 Angela Y. Guillory, who, having been placed under oath by me, did depose as follows:

My name is Angela Y. Guillory. I am of legal age and a resident of the State of Texas. The foregoing direct testimony and attached exhibit 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.

Angela Y. Guillory

Angela Y. Guillory

**SUBSCRIBED AND SWORN TO BEFORE ME** by the said Angela Y. Guillory this 15th day of April, 2022.

SAMANTHA L. ZIEGENFUSS
Notary Public, State of Texas
Comm. Expires 05-29-2023
Notary ID 13020392-9

Samantha L Ziegenfuss

Notary Public, State of Texas

EXHIBIT AYG-1

- Angela Guillory, Senior Vice President
  - Administrative Assistant Senior
  - Craig Cravey, Director, Learning & Development
    - Administrative Assistant II
    - Training Specialist (2)
    - LMS Specialist
    - Learning & Dev Coordinator
    - Training Records Clerk
  - Scott Trapp, Vice President, Diversity, Equity & Inclusion
    - HR Data Analyst Senior - DEI
    - Training Coordinator
  - Kyle Davis, Senior Director, Workforce Strategy, Employee & Labor Relations
    - Administrative Assistant II
    - HR Representative (3)
    - HR Business Partner (4)
    - Employee Relations Specialist
    - HR Manager II
    - HR Mgr III – Staffing & Recruiting
    - Recruiter Senior (2)
    - Onboarding Coordinator (2)
  - Kerri Veitch, Senior Director, Total Rewards
    - Administrative Assistant II
    - Director, Benefits
    - Manager, Pension & Thrift
    - Benefit Analyst Senior (5)
    - Senior Mgr, Total Rewards
    - Coordinator Senior (2)
    - Comp Analyst Senior (2)
    - HRIS Specialist (3)
    - HRIS Contractor
    - Payroll Manager
    - Payroll Analyst (2)
  - Jim Stockton, Director, Corporate Security
    - Manager, Corporate Security
    - Security Sergeant (3)
    - Security Officer (5)
    - Personal Protection Officer
    - Security Contractor (11)

WE DELIVER. ONCOR

Exhibit AYG-1 Human Resources Organizational Chart

# 2022 RATE CASE
# ONCOR ELECTRIC DELIVERY COMPANY LLC
# WORKPAPERS FOR
# THE DIRECT TESTIMONY OF
# ANGELA Y. GUILLORY

Ms. Guillory has no supporting workpapers for her direct testimony.

**INDEX TO THE DIRECT TESTIMONY**
**OF BONNIE L. CLUTTER, WITNESS FOR**
**ONCOR ELECTRIC DELIVERY COMPANY LLC**

# DIRECT TESTIMONY OF BONNIE L. CLUTTER

## I. POSITION AND QUALIFICATIONS

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

A. My name is Bonnie L. Clutter. My business address is 1616 Woodall Rodgers Freeway, Dallas, Texas 75202. I am the Assistant Controller at Oncor Electric Delivery Company LLC ("Oncor" or "Company").

Q. PLEASE DESCRIBE YOUR EDUCATIONAL BACKGROUND AND PROFESSIONAL EXPERIENCE.

A. I graduated from Baylor University in August 1997 with a Bachelor of Business Administration degree in Accounting and a Masters degree in Business Administration. In 1997, I began my career at Texas Utilities Services, Inc. where I worked in various accounting departments, including corporate accounting and tax accounting. In 2002, I became an Accounting Specialist for Oncor, supporting transactional accounting functions, monthly financial analysis, internal reporting, and external reporting. In 2012, I became the Tax Accounting Manager where I was responsible for managing the federal, state, and local tax accounting and compliance functions for Oncor. I started in my current role as Assistant Controller in September 2021.

Q. DO YOU HOLD ANY PROFESSIONAL CERTIFICATIONS?

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

Q. ARE YOU A MEMBER OF ANY PROFESSIONAL ORGANIZATIONS?

A. Yes. I am a member of the Texas Society of Certified Public Accountants.

Q. WHAT ARE YOUR RESPONSIBILITIES IN YOUR CURRENT POSITION?

A. As Assistant Controller, I manage Oncor's Corporate Accounting organization which includes general accounting, property accounting, accounts receivables and payables, revenue accounting, and tax accounting. These organizations are responsible for ensuring that financial information is recorded and reported in accordance with generally accepted accounting principles ("GAAP"). Additionally, the Corporate Accounting organization is responsible for seeing that the books and records of Oncor are maintained in a manner consistent with sound regulatory policies and procedures reflecting compliance with rules established, and regulatory orders issued, by the Public Utility Commission of Texas ("Commission") and other regulatory bodies.

Q. HAVE YOU EVER SUBMITTED TESTIMONY BEFORE THE COMMISSION?

A. Yes, I have pre-filed testimony in Docket Nos. 38929, 39552, 41814, 46957, 48231, 48325, 49427, 49721, 50734 and 51996.

## II. PURPOSE OF DIRECT TESTIMONY

Q. WHAT IS THE PURPOSE OF YOUR DIRECT TESTIMONY?

A. The purpose of my direct testimony is to:

- Describe and support the amount and functional assignment of ad valorem taxes, payroll taxes, state taxes, and municipal franchise fees included in Oncor's cost of service;
- Describe and support the amount and functional assignment of federal income tax ("FIT") expense included in Oncor's cost of service;
- Support the amount of accumulated deferred federal income taxes ("ADFIT") for the test year by function; and
- Support the amount and functional assignment of tax-related regulatory assets and liabilities for Oncor.

I sponsor Rate Filing Package ("RFP") Schedules II-E-2, and II-E-2.1 related to taxes other than federal income taxes, and the associated workpapers ("WPs"). I sponsor RFP Schedules II-E-3 through II-E-3.24 related to FIT, and the associated WPs. I also co-sponsor RFP Schedules II-B-11 and II-B-12, related to other rate base items and regulatory assets, respectively.

This testimony, my exhibits, and the schedules and WPs mentioned above were prepared under my direction, supervision, or control and are true and correct. My testimony is organized consistent with the topics set forth above.

Q. WITH RESPECT TO FUNCTIONAL ASSIGNMENT, WHAT ARE THE FUNCTIONS TO WHICH YOU REFER?

A. The following are the five regulated business functions defined by the applicable RFP instructions:

- Transmission ("TRAN");
- Distribution ("DIST");
- Transmission and Distribution Utility Metering System Services ("MET");
- Transmission and Distribution Utility Billing System Services ("TBILL"); and
- Transmission and Distribution Utility Customer Services ("TDCS").

Oncor combines the TBILL and TDCS functions into one category labeled TDCS which represents the customer charge. Also, to provide transparency, additional sub-functions within TRAN and DIST have been included to separately present the amounts related to Oncor Electric Delivery Company NTU LLC ("Oncor NTU"). As discussed in Company witness Mr. W. Alan Ledbetter's direct testimony, Oncor has assigned costs to these regulated business functions by either direct assignment or allocation by a functionalization factor.

## III. AD VALOREM TAX

Q. PLEASE EXPLAIN THE AMOUNT OF AD VALOREM TAX EXPENSE RECORDED DURING THE TEST YEAR.

A. Ad valorem taxes are assessed by taxing authorities on a calendar year basis using the prior year-end assessed value of the Company's tangible property and the appropriate tax rates. These tax rates are established locally by the various taxing jurisdictions. The ad valorem tax expense recorded during the test year is based on the property in service at December 31, 2020, at the rates established during the 2021 test year.

Q. HAVE YOU MADE ANY ADJUSTMENTS TO THE TEST-YEAR LEVEL OF AD VALOREM TAX EXPENSE?

A. Yes. Ad valorem tax expense has been adjusted to accurately reflect the amount of ad valorem taxes Oncor will pay related to utility property on the books at December 31, 2021. I have excluded any expense recorded on the books during the test year that relates to prior periods. I have also excluded the expense recorded on the books related to nonutility property. In addition, I have adjusted for property additions and retirements that occurred during the test year. The adjusted test-year ad valorem tax expense is presented on Schedule II-E-2 of the RFP.

Q. HAVE YOU ASSIGNED THE APPROPRIATE AMOUNT OF AD VALOREM TAX TO THE REGULATED BUSINESS FUNCTIONS OF ONCOR FOR THE TEST YEAR?

A. Yes.

Q. PLEASE EXPLAIN HOW YOU DETERMINED THE ASSIGNMENT OF AD VALOREM TAX TO EACH FUNCTION FOR THE TEST YEAR.

A. As shown on RFP Schedule II-E-2, I have assigned the level of ad valorem taxes to each function based on the ratio of each function's net plant investment using the functionalization factor Net Plant in Service, PLTSVC-N. Functionalization factors are presented on RFP Schedule II-F.

## IV. PAYROLL TAX

Q. PLEASE DESCRIBE THE VARIOUS PAYROLL-RELATED TAXES THAT ONCOR PAYS.

A. Oncor, like most employers, is required by state and federal law to pay Old Age Survivor Disability Insurance ("OASDI") or "Social Security", Medicare taxes (together OASDI and Medicare are often referred to as "FICA" taxes), federal unemployment taxes ("FUTA"), and state unemployment taxes ("SUTA"). Oncor's payroll tax expense, by type of payroll tax, is presented on RFP Schedule II-E-2.

Q. HOW IS ONCOR'S FICA TAX EXPENSE DETERMINED?

A. Oncor's FICA taxes consist of two components – OASDI tax and Medicare tax. For the test year, the employer's portion of the combined FICA tax rate was 7.65%. The OASDI tax rate of 6.2% was levied against the first $142,800 of each employee's earnings in the test year. The Medicare tax rate of 1.45% was levied against every dollar of each employee's earnings in the test year.

Q. HOW IS ONCOR'S FUTA EXPENSE DETERMINED?

A. The net effective federal unemployment tax rate, as determined by the Internal Revenue Service, was 0.6% for 2021. This rate was levied against the first $7,000 of each employee's earnings in the test year.

Q. HOW IS ONCOR'S SUTA EXPENSE DETERMINED?

A. The state unemployment tax rate, or experience rate, as provided by the Texas Workforce Commission, was 0.61% for 2021 and will continue at 0.61% for 2022. This rate was levied against the first $9,000 of each employee's earnings in the test year.

Q. PLEASE EXPLAIN HOW THE ADJUSTED PAYROLL TAX EXPENSE AMOUNTS WERE DETERMINED.

A. The test-year amounts show the actual level of payroll tax expense recorded. The adjusted payroll tax expense was determined by applying payroll tax effective rates to the adjusted labor expense. The payroll tax adjustment is presented on WP/II-E-2/4. The payroll tax effective rates were calculated for each type of payroll tax by dividing the test-year level of payroll tax expense by the test-year level of O&M labor dollars. This adjustment is necessary so that the payroll tax expense being requested is reflective of the amount of tax the Company will pay on the amount of adjusted labor expense included in the test year. The payroll tax effective rates are calculated on WP/II-E-2/4. Company witness Mr. Ledbetter provided the amount of test-year O&M labor dollars and the labor expense adjustment.

Q. HAVE YOU ASSIGNED THE APPROPRIATE AMOUNT OF EACH PAYROLL-RELATED TAX TO THE FUNCTIONS OF ONCOR FOR THE TEST YEAR?

A. Yes.

Q. PLEASE EXPLAIN HOW YOU DETERMINED THE ASSIGNMENT OF PAYROLL-RELATED TAX TO EACH FUNCTION FOR THE TEST YEAR.

A. As shown on RFP Schedule II-E-2, I have assigned the level of payroll taxes to each function based on the Payroll, excluding Administrative and General ("A&G") Salaries functionalization factor, PAYXAG.

## V. TEXAS GROSS MARGIN TAX

Q. PLEASE EXPLAIN THE TEXAS GROSS MARGIN TAX.

A. As part of the school finance revisions made in HB 1 in 2006, the Texas Legislature enacted reforms to the Texas franchise tax system and replaced it with a new tax system, referred to as the Texas Gross Margin Tax ("margin tax"). In general, all business entities registered with the State of Texas who are engaged in an active business pursuit are subject to the tax. The margin tax applies to total taxable revenues minus the largest elected deduction of:

a. cost of goods sold;
b. employee compensation; or
c. 30% of total taxable revenue.

Texas law, however, defines the transmission and delivery of electricity as a service, making the cost of goods sold election unavailable for Oncor. Therefore, because 30% of Oncor's total taxable revenue amounts to a greater deduction than employee compensation, this is the method that most beneficially applies to Oncor.

Q. PLEASE EXPLAIN THE EFFECT OF THE TAX SHARING AGREEMENT ON ONCOR'S REQUEST FOR MARGIN TAX.

A. As I will discuss later in my direct testimony, a tax sharing agreement ("TSA") between Oncor and Energy Future Holdings Corp. ("EFH"), now known as Sempra Texas Holdings Corp. ("STH"), was executed on October 10, 2007, and amended and restated on November 5, 2008. Based on the provisions of the TSA, Oncor's margin tax is calculated and recorded on the books of the Company on a stand-alone basis.

Q. HAS THE COMMISSION RULED ON ONCOR'S TREATMENT AS A STAND-ALONE CORPORATION IN CALCULATING ITS MARGIN TAX EXPENSE?

A. Yes. In Finding of Fact Nos. 128D and 132A of its Order on Rehearing in Docket No. 35717, the Commission ruled that Oncor's request for margin tax recovery was reasonable and necessary and supported Oncor's position that its margin tax expense should be calculated on a stand-alone basis. The Texas Supreme Court upheld the Commission's use of the stand-alone methodology in Docket No. 35717 with respect to Oncor's FIT expense.

Q. WHAT IS THE TOTAL AMOUNT OF MARGIN TAX INCLUDED IN ONCOR'S COST OF SERVICE?

A. The Company's total margin tax expense for the test year is shown on RFP Schedule II-E-2. This amount reflects Oncor's tax liability per the TSA with STH as applied to the Company's test year cost of service. The calculation supporting Oncor's margin tax expense included in cost of service is presented on WP/II-E-2/3.

Q. PLEASE EXPLAIN HOW YOU DETERMINED THE ASSIGNMENT OF MARGIN TAX TO THE FUNCTIONS FOR THE TEST YEAR.

A. Because the margin tax is a revenue-based tax, each function's margin tax expense is calculated based on its share of total cost of service as provided to me by Company witness Mr. Ledbetter.

## VI. MUNICIPAL FRANCHISE FEES

Q. PLEASE EXPLAIN HOW ONCOR'S MUNICIPAL FRANCHISE FEES ARE DETERMINED.

A. Under Public Utility Regulatory Act ("PURA") § 33.008, Oncor pays municipalities a fee for the use of their streets, alleys, and public ways. While this charge is now set out in PURA, previously the amounts paid were set out in the utility's franchise and thus are often referred to as "municipal franchise fees," a short-hand term I use for convenience. Pursuant to PURA § 33.008(b), municipal franchise fees are based on a cents per kilowatt-hour ("kWh") charge on all retail kWh delivered within municipalities. The per-kWh rate varies from city to city. The rate for each city is based upon its franchise fee revenues for calendar year 1998 divided by the kilowatt-hours delivered to retail customers in that city during 1998, as adjusted in accordance with each city's franchise agreement, including amendments, pursuant to PURA § 33.008(f). Additionally, in accordance with each city's franchise agreement with the Company, Oncor pays a 4% franchise fee on revenues from certain discretionary services performed for customers within the municipality.

Q. HAVE YOU MADE ANY ADJUSTMENTS TO THE TEST-YEAR AMOUNT OF MUNICIPAL FRANCHISE FEES?

A. Yes. There are two adjustments to the municipal franchise fees. First, the municipal franchise fees have been adjusted based on adjusted test-year kWh deliveries. And second, there is an adjustment to the franchise fees paid on discretionary services.

Q. PLEASE EXPLAIN THE ADJUSTMENT TO THE TEST-YEAR AMOUNT OF MUNICIPAL FRANCHISE FEES BASED ON TEST-YEAR KWH DELIVERIES.

A. The amount of municipal franchise fees has been adjusted based on the weather and customer-adjusted billed kWh included in the test year as addressed by Company witness Mr. Darryl E. Nelson. This adjustment is necessary to accurately reflect the amount of kWh-based municipal franchise fees the Company will be obligated to pay based on the expected level of kWh deliveries. To make this adjustment, I first calculated an average franchise fee factor based on each city's franchise fees and kWh delivered during the test year. I then applied the average factor to the adjusted kWh franchise fee basis, which is reflective of adjusted kWh deliveries during the test year. This calculation is presented on WP/II-E-2/6.

Q. PLEASE EXPLAIN THE ADJUSTMENT TO THE TEST YEAR MUNICIPAL FRANCHISE FEES BASED ON DISCRETIONARY SERVICES.

A. The amount of municipal franchise fees has been adjusted based on the adjustment to discretionary service revenue. This adjustment is necessary because a higher or lower level of discretionary revenue will result in a correspondingly higher or lower level of municipal franchise fees. To make this adjustment, I calculated a municipal franchise fee effective tax rate by dividing the adjusted test-year municipal franchise fees for discretionary services by the test-year billed discretionary charges. I then applied this effective tax rate to the adjusted test year discretionary revenue. This calculation is presented on WP/II-E-2/6.

Q. PLEASE EXPLAIN HOW YOU DETERMINED THE APPROPRIATE ASSIGNMENT OF MUNICIPAL FRANCHISE FEES TO EACH FUNCTION FOR THE TEST YEAR.

A. Under PURA § 33.008(a) and (b), municipalities are authorized to assess the municipal franchise fee on a transmission and distribution utility that "provides distribution service within the municipality," as a charge based on "each kilowatt hour of electricity delivered by the utility to each retail customer whose consuming facility's point of delivery is located within the municipality's boundaries." Therefore, the distribution function is responsible for the payment of the entire municipal franchise fee and has been assigned this expense for the test year.

Q. WHAT IS THE TOTAL ADJUSTED MUNICIPAL FRANCHISE FEE EXPENSE FOR THE TEST YEAR?

A. The total adjusted municipal franchise fee expense is presented on Schedule II-E-2 in the RFP. I have also included as Exhibit BLC-1 to my direct testimony a list of municipal franchise fee factors by city.

## VII. INCOME TAX NORMALIZATION PRINCIPLES

Q. WHAT IS THE BASIS OF THE FIT CALCULATION IN THIS RFP?

A. The FIT expense presented in the RFP has been computed on a normalized basis in accordance with 16 Tex. Admin. Code ("TAC") § 25.231(b)(1)(D), which states that allowable expenses include federal income taxes on a normalized basis according to the provisions of PURA § 36.060.

Q. WHAT IS MEANT BY THE TERM "NORMALIZATION"?

A. Normalization is a method of calculating FIT expense using comprehensive interperiod income tax allocation in a manner consistent with GAAP, equitable ratemaking principles, and regulatory requirements. Under normalization, FIT expense included in the cost of service equals the statutory federal income tax rate (currently 21%) times the regulated book income before taxes and then adjusted for certain items such as amortization of investment tax credits ("ITCs") and excess ADFIT (a term I will discuss later). In this manner, the fully normalized income tax expense is matched to the pre-tax revenue, income and expense recorded on the books. The difference between fully normalized FIT expense and the amount of the current income tax liability related to those items actually reflected on the federal income tax return for the current year (in accordance with the Internal Revenue Code ("IRC")) is known as deferred federal income tax expense. The accumulated balance of deferred federal income tax is known as ADFIT.

Q. WHAT DO YOU MEAN BY "NORMALIZED" FIT EXPENSE?

A. From a ratemaking perspective, normalization of income tax expense is the method of calculating income tax expense or benefit for inclusion in the cost of service that results in a "normal" level of income tax expense or benefit that matches (*i.e.*, is commensurate with) the level of revenues, income, and expenses included in cost of service (the determination of revenue requirements). The term normalization also has a specific meaning from an IRC perspective. From an IRC perspective, normalization refers to the process of recording deferred taxes on differences between book depreciation and tax depreciation using an accelerated depreciation method and life permitted under the IRC. Normalization for public utility property also applies to excess ADFIT. Finally, the concept relates to the manner in which ITCs are amortized for ratemaking purposes. Normalization for public utility property is important under the IRC because compliance is a condition for being able to claim accelerated depreciation and ITCs when determining current income taxes payable to the U.S. Treasury. From a GAAP perspective, specific accounting principles relating to recording current and deferred income taxes are set forth in the Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") 740, Income Taxes.

Q. PLEASE SUMMARIZE THE THEORY AND CONCEPT OF NORMALIZATION DISCUSSED ABOVE AND THE RESULT OF NORMALIZATION.

A. The general theory of income tax normalization is that any revenue, income or expense transaction recorded on the books, has a related tax cost or benefit and that tax cost or benefit should be recognized and classified consistently with the revenue, income or expense transactions that caused that tax effect. Simply put, income taxes do not have an independent existence of their own. Instead, recording revenues or income gives rise to income tax obligations and recording expenses gives rise to income tax deductions. As such, income tax expense applicable to regulated operations should be based on the tax impacts of revenues, income, expenses, and investments included in the determination of revenue requirements. The corollary is that cost of service should not include the income tax effects of transactions engaged in by other companies, or the nonregulated operations or below the line activities within a single utility, unless the applicable revenues and expenses are included in the determination of revenue requirements as well. The components of income tax expense should include both a current expense (based on the estimated amount of income taxes that will be payable in the current period) and a deferred income tax expense (based on temporary differences between tax treatment and book treatment of specific items that will become payable or provide a tax benefit in the future when the temporary difference reverses). To do otherwise would be inconsistent with the matching and normalization concepts.

Q. HOW ARE INCOME TAX LIABILITIES DEFERRED?

A. Income tax liabilities may be deferred due to differences in methods of computing revenue, income, and expenses for ratemaking and accounting purposes on the one hand, and for income tax purposes as allowed by the IRC on the other. For example, for ratemaking and accounting purposes, the cost of a long-lived asset is capitalized and generally depreciated over its estimated useful life by using a systematic and rational (*e.g.*, straight-line) method. For income tax purposes, however, the IRC provides accelerated depreciation methods and shorter recovery periods for the same long-lived asset, resulting in a higher tax deduction in the early years of the asset's life. Importantly, under either accounting and ratemaking or income tax purposes, total depreciation of the asset is limited to the cost of the asset. Thus, while in the early years, the depreciation tax deduction may exceed accounting and ratemaking depreciation expense (reducing the currently payable income tax liability/expense), in later years the level of annual depreciation expense used for ratemaking and accounting purposes will continue on a straight-line basis that exceeds the amount of depreciation used for income tax purposes. When this occurs, higher current taxes become due. This future tax payment is the settlement of the deferred tax liability that arose in an asset's early years when depreciation for tax purposes was greater than depreciation for ratemaking and accounting purposes. Because total depreciation is limited to the cost of the asset, accelerated tax depreciation represents a ***temporary*** difference between book income and tax income and the resultant temporary deferral of a tax liability. A utility may have numerous different temporary differences between book income and tax income in addition to temporary differences resulting from different book and tax depreciation methods. At each balance sheet date, the amount of the income tax liability or tax benefit related to temporary differences is shown as ADFIT. Generally, for ratemaking purposes, the net balance of ADFIT is included as a rate base component because the cash flow timing differences between book income and tax income represent cost-free capital supplied by the federal government.

Q. ARE ALL DIFFERENCES BETWEEN BOOK AND TAX TEMPORARY DIFFERENCES?

A. No. There are some differences that do not reverse over time. These are called permanent differences. A permanent difference is a revenue or expense item that is reported on the tax return or on the books in one period but will not reverse. An example of a permanent difference is meals and entertainment expense. For book purposes, such expenses are reported as expense, but under the IRC, only 50% of some meals and none of entertainment expenses are deductible. The amount that is not deductible is a permanent difference.

Q. HOW ARE PERMANENT DIFFERENCES TREATED IN THE INCOME TAX CALCULATION?

A. Permanent differences are either expenses that are never deductible or income that is exempt from taxation. Thus, deferred taxes are not required for such items. In the income tax calculation, permanent differences increase or decrease total FIT expense.

Q. DO YOU BELIEVE THAT NORMALIZATION ACCOUNTING REPRESENTS EQUITABLE RATEMAKING?

A. Yes. Normalization accounting matches the tax consequences of transactions to the recognition of the transactions for ratemaking purposes. This matching ensures the tax benefit associated with a given expense is equitably spread over the entire period that the expense is included in the utility's cost of service. On the other hand, non-normalized accounting, also known as flow-through accounting, results in a mismatch of expenses and tax benefits. In "flow-through" accounting and ratemaking, only current income tax expense is permitted in the determination of revenue requirements. Deferred taxes are not recorded. Under this method, the tax benefit of the accelerated tax deduction “flows through” to customers as a reduction in the current income tax expense/liability included in the revenue requirement of current customers. However, when the temporary difference reverses, higher current income tax occurs, but because there is no ADFIT to offset the increase in current taxes, there is an increase in customer rates at that time. Flow-through accounting therefore treats current customers and future customers differently, which is contrary to fair and equitable ratemaking.

Q. WHAT SUPPORTS YOUR CONCLUSION THAT NORMALIZATION IS REQUIRED BY THE COMMISSION?

A. 16 TAC § 25.231(b)(1)(D) requires that taxes be computed on a normalized basis.

Q. DOES THE IRC ADDRESS THE SUBJECT OF NORMALIZATION ACCOUNTING AS APPLIED TO UTILITY RATEMAKING?

A. Yes. The IRC and the Tax Cuts and Jobs Act (“TCJA”) contain guidance that must be followed by regulatory commissions with respect to the use of a normalization method for ratemaking purposes for certain accelerated tax depreciation deductions, ITCs, and excess ADFIT caused by changes in federal tax rates. As I will address later, the penalties for not complying with the normalization rules are quite severe.

To utilize accelerated depreciation for federal income tax purposes, Oncor must comply with the provisions found in prior IRC Section 167(l) and current IRC Sections 168(f)(2) and 168(i)(9). Fluctuations in the current income tax liability resulting from depreciation temporary differences must not reduce total regulated income tax expense (must not be flowed-through to current customers). Instead, the tax effects of the temporary differences must be retained on the balance sheet in the form of an ADFIT reserve that is used later to satisfy the higher income tax liabilities that will occur once the temporary differences reverse consistent with the treatment under ASC 740 (assuming no change in the statutory federal income tax rate).

For ITCs, the IRC provides guidance on the appropriate sharing of ITCs between customers and investors. Under the IRC election made by Oncor pursuant to IRC Section 46(f)(2), ITCs are deferred in the year realized and amortized as a reduction to FIT expense over the book lives of the related property, benefiting customers. The unamortized balance does not reduce rate base.

Excess ADFIT is the amount of net deferred taxes incurred on temporary differences when the corporate federal tax rate was other than the current rate of 21%. When the federal tax rate was changed from 35% to 21% with the passage of the TCJA, the balance of ADFIT that was provided at higher statutory tax rates became "excess" ADFIT. The TCJA contains guidance on the timing at which certain components of excess ADFIT can be reversed to reduce customer rates.

Q. WHAT DOES THE IRC STATE WITH RESPECT TO RATEMAKING TREATMENT FOR THE ADFIT RESERVE?

A. The IRC provides regulatory authorities permission to reduce rate base by the amount of ADFIT associated with certain book and tax temporary differences, primarily related to depreciation. This is because such ADFIT represents cost-free capital supplied by the federal government, upon which no return need be provided. The benefit of the cost-free capital associated with ADFIT is provided to customers through a reduction in rate base.

Q. WHY IS IT IMPORTANT TO COMPLY WITH THESE NORMALIZATION RULES?

A. A failure to satisfy the IRC's depreciation normalization requirements is referred to as a normalization violation and would result in the regulated utility's loss of its ability to claim accelerated tax depreciation on its federal income tax return. Were this to occur, the utility could only use straight-line depreciation rates based on book lives on its income tax return. The loss of the cost-free capital available as a result of the IRC's liberalized depreciation allowances would increase financing costs (as any replacement capital would have an associated cost), increase rate base due to a reduction in ADFIT, and increase rates charged to customers.

The IRC also requires consistency in the assumptions used to determine tax expense, rate base, depreciation expense, and the reserve for deferred federal income taxes. A normalization violation would occur if a procedure or adjustment that is inconsistent with the normalization requirements is used for ratemaking purposes. An adjustment that uses an estimate or projection of tax expense, depreciation expense, or the reserve for deferred taxes required by the normalization rules, will be considered "inconsistent" unless the estimate is also used in determining the other items and in computing rate base.

Q. HOW DO THE RING-FENCING REQUIREMENTS FROM DOCKET NOS. 34077 AND 47675 AFFECT ONCOR'S NORMALIZED FIT EXPENSE?

A. Oncor was required to conduct itself as a separate business to satisfy the commitments made in the final orders issued by the Commission in Docket Nos. 34077 and 47675. These commitments supported the ring-fencing requirements as ordered by the Commission.

The TSA was executed to facilitate the ring-fencing. This TSA, entered into on October 10, 2007, and amended and restated on November 5, 2008, stipulates that the tax liability of Oncor will be calculated on a stand-alone basis as if Oncor were a corporation unrelated to STH, formally known as EFH, or any of STH's affiliates for tax years beginning January 1, 2007. Oncor normalizes its FIT expense, and the TSA is properly taken into account in determining Oncor's normalized FIT expense. I will discuss the TSA in more detail later in my direct testimony.

Q. DOES ONCOR'S REQUESTED FIT EXPENSE, AS SHOWN ON RFP SCHEDULE II-E-3, COMPLY WITH EQUITABLE RATEMAKING, ACCOUNTING, AND NORMALIZATION REQUIREMENTS?

A. Yes. Normalization matches income tax expense with pretax book income. The income tax expense and tax-related rate base items are only included in the revenue requirement determination to the extent the related revenues, income, and expenses that caused the income tax effect are included in the requested rates. In this manner, a fair and equitable result is obtained. In summary, Oncor's requested FIT expense is matched to the requested ratemaking net income, adjusted for permanent book/tax differences for each regulated function. Ratemaking net income equals the equity return on invested capital.

## VIII. DESCRIPTION OF FIT CALCULATION AND COMPONENTS

Q. PLEASE EXPLAIN THE COMPONENTS OF THE CALCULATION OF FIT EXPENSE AS SHOWN ON RFP SCHEDULES II-E-3.

A. First, I will explain the nature of the components of the calculation of FIT as presented on RFP Schedule II-E-3. In addition, I will explain any adjustment to or elimination from any component for unusual and nonrecurring amounts included in the test year. In the next section of my testimony, I will explain the assignment of each normal and recurring component of the FIT calculation to the regulated business functions as prescribed by the RFP instructions.

Return

The amount of return on RFP Schedule II-E-3, line 3 in the Total Company column represents the after-tax operating income of Oncor. FIT for each of the functions for the test year has been determined as part of their individual revenue requirement determinations. The return is discussed in Company witness Mr. Ledbetter's direct testimony.

Less: Synchronized Interest

Interest costs are deductible for income tax purposes. Synchronized interest on line 6 of RFP Schedule II-E-3 represents the amount of interest expense included in line 3, return on invested capital. For each dollar of interest the customer is charged in the return calculation, the customer receives the income tax benefit from the interest deduction associated with that dollar of return.

Less: ITC Amortization

Consistent with its election under former IRC Section 46(f)(2), Oncor is amortizing ITCs related to property included in rate base ratably over the book lives of such property as a reduction to tax expense (without reducing rate base). As shown on prior FIT returns, all ITCs that were generated in prior periods have been utilized. To comply with the normalization rules for ITCs, a known and measurable adjustment has been made so that the unamortized ITCs are amortized over the revised book lives of property requested in this case.

Less: Excess ADFIT Amortization

Excess ADFIT is the amount of deferred taxes incurred on temporary differences when the federal tax rate was higher than the current rate of 21%. When the federal tax rate was reduced from 35% to 21% by the TCJA, which was signed into law on December 22, 2017, the balance of deferred taxes that was in excess of the new, lower rate became "excess" ADFIT. Excess ADFIT is characterized as either "protected" or "non-protected", as described below. In Docket No. 48325, *Application of Oncor Electric*

*Delivery Company LLC for Authority to Decrease Rates Based on the Tax Cuts and Jobs Act of 2017*, Oncor addressed its excess ADFIT balance and classification between protected and non-protected. Excess ADFIT is amortized as a benefit to income tax expense as the underlying temporary differences reverse (in the case of protected excess ADFIT) or a prescribed reversal period (in the case of non-protected excess ADFIT).

Amortization of Protected Excess ADFIT

Protected excess ADFIT represents excess ADFIT attributable to certain property-related timing differences recorded in prior years when the corporate income tax rate was other than the current 21% rate. These certain timing differences result from accelerated depreciation methods and shorter recovery lives for income tax purposes as compared to the straight-line method over a longer life for accounting and ratemaking purposes. The ratemaking treatment of deferred taxes related to these differences are statutorily determined to comply with the IRS normalization rules, hence the characterization of these excess deferred taxes as "statutory" or "protected." The adjusted amount on RFP Schedule II-E-3, line 8 represents the reversal of protected excess ADFIT for the test year using the Average Rate Assumption Method ("ARAM"). Section 13001(d) of the TCJA essentially "protects" the reversal of the statutorily required ADFIT originally established at rates higher than the statutory federal income tax rate of 21% by stating that the ADFIT reserves are not to be reduced more rapidly or to a greater extent than such reserve would be reduced under the ARAM. The ARAM reverses the ADFIT as the related temporary difference reverses (*i.e.*, when book depreciation exceeds tax depreciation). A reversal of protected excess ADFIT faster than the ARAM would result in a normalization violation, which would preclude Oncor from claiming accelerated tax depreciation on its tax return in addition to requiring Oncor to remit to the IRS amounts that were returned to customers more rapidly than under the ARAM requirement.

Amortization of Non-protected Excess ADFIT

Non-Protected excess ADFIT represents un-reversed "excess" deferred taxes attributable to certain timing differences that originated when the corporate tax rate was higher than the current tax rate of 21% that are not protected under normalization provisions of the TCJA. These temporary timing differences primarily arise from the treatment of regulatory assets, employee retirement costs, and certain other financial events whereby the costs are deducted for income tax purposes but are capitalized and amortized or included in the cost of depreciable assets for book and ratemaking purposes. In accordance with the final order in Docket No. 48325, Oncor is presently amortizing its non-protected excess ADFIT over a 10-year period.

Amortization of Excess ADFIT Reserve

Reserve accounting for any protected excess ADFIT amortization under the ARAM method that differs from the level of protected excess ADFIT amortization established in setting rates was ordered by the Commission in Docket No. 48325. The intent of the reserve mechanism is to track and return to or collect from ratepayers any amount accumulated in the reserve since the last rate proceeding over a reasonable period of time in the subsequent rate proceeding. I have tracked and reconciled the excess ADFIT amortization based on the ARAM and have reserved any amounts that differed from the level of protected excess amortization established in Docket No. 48325. I have included the excess ADFIT reserve amortization in the FIT calculation on RFP Schedule II-E-3, line 10.

Less: Research and Development ("R&D") Tax Credit

The R&D tax credit presented on RFP Schedule II-E-3, line 11 is a tax credit taken in accordance with IRC Section 41 for qualified research expenses and payments made to energy research consortiums. The known and measurable adjustment reflects the exclusion of the FIN 48 reserve adjustment recorded on Oncor's books during the test year due to the uncertainty that Oncor's claim for the tax credit will be accepted in its entirety by the IRS.

Less: Amortization of Organizational Expenditures

In November 2008, a third-party investor acquired a minority interest in Oncor, and Oncor became a partnership for federal income tax purposes. Expenditures made by the Company related to the formation of the partnership are capitalized and amortized, straight-line, over 15 years for federal income tax purposes. These expenditures are recorded into equity for book purposes and are therefore never reflected in net income. This creates a permanent difference for tax purposes, and the impact is reflected in the requested income tax expense on RFP Schedule II-E-3, line 12.

Add: Depreciation Differences

The depreciation differences amount presented on RFP Schedule II-E-3, line 17, accounts for the increase in the current tax liability for the portion of book depreciation that is not tax deductible and on which ADFIT is not available to be reversed through earnings. The adjustment accounts for certain timing differences that were flowed through in the years before Oncor's predecessors adopted full normalization. The reversal of previously flowed-through temporary differences increases current tax expense and, accordingly, increases revenue requirements in the year the differences reverse (*i.e.*, when book depreciation exceeds tax depreciation). The depreciation difference adjustment also accounts for property costs that are never deductible for income tax purposes, such as book depreciation on the equity component of the Allowance for Funds Used During Construction ("AFUDC"), which is capitalized in construction work in process during the construction period but not included as taxable income.

Add: Meals & Entertainment, Social Club Dues and Commuter Expenses

The meals, entertainment, social club dues and commuter expense amounts shown on lines 18, 19 and 20 of RFP Schedule II-E-3 represent three permanent differences. The meals and entertainment amount arises from the IRC's permanent exclusion of 50% of some business meals and 100% of entertainment expenses as a tax-deductible expense. The social club dues amount arises from the IRC's permanent exclusion of amounts paid for employee memberships to social clubs. The commuter expense amount arises from the IRC's permanent exclusion of certain transportation fringe benefits and commuting expenses. An adjustment has been made to remove the tax costs associated with the amount of social club dues.

Add: Employee Compensation Plans

The amount shown on line 21 of RFP Schedule II-E-3 represents the total tax effect of the employee compensation plans. The majority of the adjustment relates to adjustments to the cash surrender value of insurance policies, which is not taxable income under tax law.

Add: FIN 48 Interest

The amount shown on line 22 of Schedule II-E-3 is for the interest accrued on uncertain tax positions ("UTPs") which is recorded as tax expense on Oncor's books. An adjustment has been made to remove the interest from the calculation to represent the appropriate test-year level of tax expense.

Add: Prior Period Adjustments

The amount shown for the test year on line 23 of RFP Schedule II-E-3 represents tax adjustments for prior tax years. Prior year adjustments on which deferred income taxes are not recorded are permanent increases or decreases in FIT expense that are not eligible for inclusion in cost of service. As such, these items have been removed from the calculation to represent the appropriate test-year level of tax expense.

Multiplied by: Tax Factor

Because the return method, which is used on this schedule, starts with return after federal income taxes, the tax factor is necessary to calculate the tax component of the ratemaking equity return (after adjusting for the previously listed differences). The tax factor of 26.58228% on line 26 of RFP Schedule II-E-3 is calculated as the FIT rate divided by 1 minus the tax rate, or .21/.79. This ratio calculates the FIT expense associated with an after-tax return. Simply stated, about $1.27 of pre-tax equity return is needed to generate $1.00 of after-tax equity return.

<u>Less: Tax Credits</u>

Amounts on lines 31 through 35 of RFP Schedule II-E-3 represent:

(a) ITC amortization,

(b) Excess ADFIT amortization, and

(c) R&D Tax Credit,

all of which reduce tax expense.

<u>Add: Depreciation Differences</u>

As I discuss above, the depreciation differences adjustment accounts for (1) certain timing differences that were flowed through in the years before Oncor's predecessors adopted full normalization, and (2) property costs that are never deductible for income tax purposes, such as book depreciation recorded on capitalized AFUDC equity. The reversal of these two differences increases current tax expense and, accordingly, increases revenue requirements in the year the differences reverse.

<u>Add: FIN 48 Interest</u>

As discussed above, this amount has not been included in the tax calculation of the cost of service and has been adjusted out of the test-year level of FIT expense as a known and measurable adjustment.

<u>Add: Prior Period Adjustments</u>

Prior year adjustments are a permanent increase or decrease in FIT expense. This amount has not been included in the tax calculation of the cost of service and has been adjusted out of the test-year level of FIT expense as a known and measurable adjustment.

Q. PLEASE EXPLAIN HOW YOU DETERMINED THE TEST-YEAR LEVEL OF PROTECTED EXCESS ADFIT AMORTIZATION.

A. As I previously described, the protected excess ADFIT is required to be amortized using the ARAM, under which amounts are amortized over the remaining life of the plant to which the deferred taxes relate. Oncor uses the tax fixed asset solution, PowerTax, to track its tax depreciation and plant-related ADFIT. PowerTax is specifically designed for the utility industries and other asset-intensive companies. PowerTax tracks the reversals of timing differences normalized at rates different than the current corporate income tax rate and calculates the excess ADFIT reversal using the ARAM. The amount of protected excess ADFIT amortization shown on RFP Schedule II-E-3, line 8 is the test-year level of amortization as calculated using PowerTax. The known and measurable adjustment shown in column (g) represents (1) an adjustment to the amount of protected excess ADFIT amortization recorded on the books during the test year, which was based on an estimate and (2) the test-year level of protected excess ADFIT amortization related to plant recorded on the books of Oncor NTU.

Q. PLEASE EXPLAIN HOW YOU DETERMINED THE TEST-YEAR LEVEL OF NON-PROTECTED EXCESS ADFIT AMORTIZATION.

A. Oncor requested in Docket No. 48325 that the non-protected excess ADFIT be appropriately amortized over the same life as the reversal of the underlying temporary differences. However, Oncor agreed in a Commission-approved settlement of the docket to amortize the non-protected excess ADFIT over 10 years. The amount of non-protected excess ADFIT included in Docket No. 48325 was an estimate. That amount has been adjusted to reflect the final reconciliation of tax year-end 2017 timing difference balances. I have included a level of non-protected excess ADFIT amortization based on the unamortized balance at the end of the test year over a five-year amortization period. The known and measurable adjustment shown in column (g) represents (1) an adjustment to the annual amortization due to the revised beginning balance and a shorter five-year amortization period, and (2) the amortization of Oncor NTU's non-protected excess ADFIT based on a five-year amortization period. The total amount of non-protected excess ADFIT amortization for the test year is shown on RFP Schedule II-E-3, line 9.

Q. PLEASE EXPLAIN HOW YOU DETERMINED THE TEST-YEAR LEVEL OF PROTECTED EXCESS ADFIT RESERVE AMORTIZATION.

A. As I previously described, I have tracked and reconciled the excess ADFIT amortization using the ARAM and have reserved any amounts that differed from the level of protected excess amortization included in current rates. The actual cumulative amount of Oncor's protected excess ADFIT amortization as a result of TCJA is lower than the amount estimated in Docket No. 48325 primarily due to the impact of retirements and cost of removal on ADFIT reversals. I have also included the amount of protected excess ADFIT reversal related to Oncor NTU in the reserve. As of the end of the test year, the excess ADFIT reserve balance is $8,044,643. I am recommending a five-year amortization period for the excess ADFIT reserve. This amortization period aligns with the amortization period of other regulatory assets and liabilities. Additionally, due to unresolved issues regarding the proper treatment of retirements as it relates to excess ADFIT reversals, which I discuss later in my testimony, a shorter amortization period is necessary to mitigate any potential normalization issues. I have included the excess ADFIT reserve amortization of $1,608,929 as a known and measurable adjustment on RFP Schedule II-E-3, line 10.

Q. PLEASE EXPLAIN WHY IT IS APPROPRIATE TO INCLUDE A KNOWN AND MEASURABLE ADJUSTMENT FOR THE EXCESS ADFIT AMORTIZATION RELATED TO ONCOR NTU.

A. Under the commitment reflected in the Docket No. 48929 final order, none of the excess ADFIT recorded for Oncor NTU as a result of TCJA has been amortized or otherwise reduced because current rates do not reflect any such amortization. As agreed by the parties and ordered by the Commission in Docket No. 48929, the amortization of Oncor NTU's excess

ADFIT is included in this rate proceeding. Oncor NTU's protected excess ADFIT amortization is calculated using the ARAM and the non-protected ADFIT amortization is based on a five-year amortization period.

Q. PLEASE DESCRIBE THE TSA IN PLACE RELATED TO ONCOR.

A. As I previously mentioned, a TSA between EFH and Oncor was executed on October 10, 2007, and amended and restated on November 5, 2008. On March 9, 2018, Sempra Energy ("Sempra") acquired EFH and its approximately 80% ownership interest in Oncor. As part of the acquisition, EFH was renamed STH, and STH assumed the TSA without any modifications. STH is wholly owned by Sempra and is included in Sempra's consolidated tax return. Prior to 2007, the entities filing in the then-EFH consolidated return were allocated a portion of the consolidated liability based on their stand-alone taxable income in relation to the consolidated taxable income. To the extent that an affiliate generated a tax benefit that reduced the overall consolidated payment, the affiliate was compensated for the amount of benefit utilized by the consolidated group members. Beginning on November 5, 2008, when a 19.75% interest in Oncor was sold to an unrelated third-party investor, Oncor became a partnership for federal income tax purposes, ceased to be a member of EFH's consolidated group, became ineligible to file a tax return as part of the EFH consolidated group, and became treated as a separate tax entity. This tax treatment remained appropriate after Sempra's acquisition of EFH.

The TSA entered into on October 10, 2007 (and amended and restated on November 5, 2008), stipulates that the tax liability (not just taxable income) of Oncor will be calculated on a stand-alone basis as if Oncor were a corporation unrelated to STH, Sempra, or any of its affiliates for tax years beginning January 1, 2007. In effect, Oncor's tax liability under the TSA approximates the tax liability Oncor would owe to the applicable taxing authorities if income taxes were based on the revenues and deductions reflected on the consolidated income tax return attributable to

Oncor. The required Oncor tax payments since 2007 have been determined on this basis.

Q. DID SEMPRA'S ACQUISITION OF EFH AND EFH'S MAJORITY OWNERSHIP OF ONCOR IN MARCH 2018 HAVE ANY IMPACT ON THE TSA OR ONCOR'S TAX TREATMENT?

A. No. As I mentioned earlier, Sempra's acquisition of EFH did not change the TSA or Oncor's tax treatment. As part of the acquisition of EFH, STH assumed the TSA as written, and the TSA remained in place without any modification. Oncor is still treated as a stand-alone entity and remains a partnership for tax purposes.

Q. HAS THE COMMISSION RENDERED ANY DECISION AS TO THE TREATMENT OF ONCOR'S TSA?

A. Yes. Although the Commission acknowledged that the TSA was not binding on its determination, it nonetheless held that "[i]t is appropriate to treat Oncor as a stand-alone, conventional corporation for the purpose of determining its tax expense," and "to determine Oncor's federal income tax expense included in its revenue requirement as if it were a stand-alone, conventional corporation." *See* Finding of Fact Nos. 128B-128F, Order on Rehearing, Docket No. 35717. Based on this finding, the Commission concluded that, as a matter of law, "[e]stablishing Oncor's federal tax expense as if it were a stand-alone conventional corporation will result in rates that are just and reasonable." *See* Conclusion of Law ("COL") No. 19D, Order on Rehearing, Docket No. 35717. Further, the Commission concluded that, as a matter of law, "[e]ven though Oncor is a pass-through entity and not liable for federal income taxes, the Commission is required to include an amount for such taxes in its cost of service." See COL No. 19C, Order on Rehearing, Docket No. 35717, citing *Suburban Utility Corp. v. Public Utility Commission,* 652 S.W.2d 358, 364 (Tex. 1983). These findings were upheld by the Texas Supreme Court in *Oncor Electric Delivery v. Public Utility Commission of Texas*, 507 S.W.3d 706, 714-17 (Tex. 2017).

Q. WHAT IS THE APPROPRIATE INCOME TAX RATE UPON WHICH ONCOR'S FIT EXPENSE SHOULD BE BASED?

A. Oncor is currently, and was during the entire test year, a partnership for federal income tax purposes. Following the decision made by the Commission in Docket No. 35717, Oncor's FIT rate should be 21%, since that is the current rate at which a stand-alone, conventional corporation is required to pay. In addition, this is the rate Oncor is obligated to pay under the TSA. This is the appropriate amount that should be included in the computation of rates.

Even ignoring the TSA requirements and the Commission's previous findings that Oncor's FIT expense should be determined as if Oncor is a stand-alone, conventional corporation, the appropriate rate for determining Oncor's FIT expense would be 21%. For a "pass-through" entity like a partnership, utilities are allowed to recover the actual or potential tax liabilities of its owners. There are two partners who own Oncor, as follows:

- 80.25% ownership interest, STH, a Texas C corporation through its wholly-owned subsidiaries Sempra Texas Intermediate Holding Company LLC and Oncor Electric Delivery Holdings Company LLC, which are both Delaware limited liability companies; and
- 19.75% ownership interest, Texas Transmission Investment LLC, a Delaware limited liability company.

Texas Transmission Investment LLC ("TTLLC") filed an election to be taxed as a C corporation on October 14, 2008. I have attached the Form 8832, Entity Classification Election that was filed with the IRS as Exhibit BLC-2. In addition, I have attached a tax organizational chart as my Exhibit BLC-3. Therefore, the 80.25% and the 19.75% ownership interests in Oncor, totaling 100%, are all taxable to corporations at the 21% statutory rate. Oncor has not only established that under the TSA its income is taxed at the 21% C corporation rate, it has also established that: (1) the STH and TTLLC ownership interests have an actual income tax obligation at rate of

21%; and (2) Oncor has provided a reasonable measurement of that obligation.

## IX. ASSIGNMENT OF TEST-YEAR FIT BY FUNCTION

Q. HOW DID YOU DETERMINE THE TEST-YEAR FIT EXPENSE FOR EACH OF THE REGULATED BUSINESS FUNCTIONS?

A. I determined FIT expense for each function as part of each function's test year revenue requirement. I started with return on rate base for each function, which was determined and provided to me by Company witness Mr. Ledbetter. From this amount I deducted synchronized interest based on each function's rate base, amortization of ITCs, excess ADFIT amortization, and other items for each function. I also added back meals and entertainment, the depreciation differences adjustment, and other permanent items for each function. The assignment methodology of these items to each function is shown in column I of RFP Schedule II-E-3. The result of these deducts and addbacks to return on rate base is the taxable component of the return for each function. Because the FIT expense calculation starts with the calculated after-tax return, it is necessary to apply the tax factor discussed above to the taxable component of the return to determine federal income taxes before adjustments. ITCs and excess deferred taxes (items that do not have a related taxable receipt or deduction) are then deducted from the federal income taxes before adjustments to determine total federal income taxes for each function.

Q. HOW DID YOU ASSIGN THE TEST-YEAR COMPONENTS OF THE FIT CALCULATION YOU JUST DESCRIBED TO THE REGULATED BUSINESS FUNCTIONS?

A. I have assigned the components of the test-year FIT calculation in accordance with the RFP instructions. The components of the test-year FIT calculation have either been:

- directly assigned;

- assigned based on other directly assigned costs or appropriate cost-causation principles; or
- assigned using a functionalization factor prescribed in RFP Schedule F.

Q. HOW DID YOU ASSIGN ONCOR'S TEST-YEAR RETURN ON RATE BASE TO THE FUNCTIONS?

A. The return on rate base by function on line 3 of RFP Schedule II-E-3 was provided by Company witness Mr. Ledbetter as described above and is presented on RFP Schedule II-B.

Q. HOW DID YOU ASSIGN THE SYNCHRONIZED INTEREST COMPONENT OF ONCOR'S TEST-YEAR FIT CALCULATION TO THE REGULATED BUSINESS FUNCTIONS?

A. As presented on WP/II-E-3.3, synchronized interest has been directly assigned to each function based on each function's total rate base multiplied by the long-term debt component of the Company's requested weighted average cost of capital.

Q. HOW DID YOU ASSIGN THE TEST-YEAR LEVEL OF ONCOR'S AMORTIZATION OF ITCS?

A. The adjusted test-year level of ITC amortization has been directly assigned to the TRAN and DIST functions based on each functions gross amount of ITC multiplied by its respective life-only book depreciation rate.

Q. HOW DID YOU ASSIGN THE TEST-YEAR LEVEL OF PROTECTED EXCESS ADFIT AMORTIZATION?

A. Because the protected excess ADFIT balance is entirely attributable to using accelerated depreciation methods and shorter lives for income tax purposes as compared to book purposes for fixed assets, the test-year level of Oncor's and Oncor NTU's excess ADFIT amortization was assigned to the functions based on the ratio of each function's net plant investment – functionalization factors PLTSVC-ONC and PLTSVC-NTU, respectively.

Q. HOW DID YOU ASSIGN THE TEST-YEAR LEVEL OF NON-PROTECTED EXCESS ADFIT AMORTIZATION?

A. The non-protected excess ADFIT balance is almost entirely attributable to book and tax temporary differences related to plant; therefore, the plant-related portion of the amortization was assigned to the functions based on the ratio of each function's net plant investment for Oncor and Oncor NTU - functionalization factors PLTSVC-ONC and PLTSVC-NTU, respectively. The remaining non-protected excess amortization that is not related to net plant investment was directly assigned to the functions based on the assignment of the underlying temporary difference giving rise to the excess ADFIT.

Q. HOW DID YOU ASSIGN THE TEST-YEAR LEVEL OF THE EXCESS ADFIT RESERVE AMORTIZATION?

A. Because Oncor's excess ADFIT reserve balance is entirely attributable to book and tax temporary differences related to fixed assets, the test-year level of excess ADFIT reserve amortization was assigned to the functions based on the ratio of each function's net plant investment – functionalization factors PLTSVC-ONC for legacy Oncor and PLTSVC-NTU for Oncor NTU.

Q. HOW DID YOU ASSIGN THE TEST-YEAR LEVEL OF R&D TAX CREDIT?

A. The test-year level of R&D tax credit was assigned to the functions based on the ratio of each function's net plant investment for Oncor – functionalization factor PLTSVC-ONC.

Q. HOW DID YOU ASSIGN THE TEST-YEAR LEVEL OF AMORTIZATION OF ORGANIZATIONAL EXPENDITURES TO THE FUNCTIONS?

A. The adjusted test-year level of amortization associated with organizational expenditures was assigned to the functions based on the ratio of each function's total cost of service for legacy Oncor – functionalization factor TCS_ONC.

Q. HOW DID YOU ASSIGN THE TEST-YEAR LEVEL OF DEPRECIATION DIFFERENCES TO THE FUNCTIONS?

A. Oncor's depreciation differences amount shown on line 17 of RFP Schedule II-E-3 consists of the reversal of prior flow-through amounts and non-deductible AFUDC equity. All of Oncor's depreciation adjustment is assigned to the functions based on the ratio of each function's net plant investment – functionalization factor PLTSVC-ONC.

Q. HOW DID YOU ASSIGN THE TEST-YEAR LEVEL OF MEALS AND ENTERTAINMENT TO THE FUNCTIONS?

A. Oncor's employees incur meals and entertainment expenses. Therefore, I have assigned the test-year level of the non-deductible portion of meals and entertainment costs to the functions based on payroll excluding A&G salaries – functionalization factor PAYXAG.

Q. HOW DID YOU ASSIGN THE TEST-YEAR LEVEL OF COMMUTER EXPENSES TO THE FUNCTIONS?

A. Because the commuter expenses are related to the cost of transportation expenses for Oncor's employees, I have assigned the test-year level of commuter expenses to the functions based on payroll excluding A&G salaries – functionalization factor PAYXAG.

Q. HOW DID YOU ASSIGN THE TEST-YEAR LEVEL OF EMPLOYEE COMPENSATION PLANS TO THE FUNCTIONS?

A. The adjustment related to employee compensation plans has been assigned to the functions based on other directly assigned costs in FERC Account 926, employee pensions and benefits expense.

## X. <u>ACCUMULATED DEFERRED FEDERAL INCOME TAXES</u>

Q. HAVE YOU DETERMINED THE ADFIT COMPONENT OF RATE BASE BY FUNCTION FOR THE TEST YEAR?

A. Yes, I have. RFP Schedule II-E-3.5 presents the ADFIT component of rate base for the test year, functionalized in accordance with the RFP instructions.

Q. PLEASE EXPLAIN THE REDUCTION IN RATE BASE FOR ADFIT.

A. As I described previously, ADFIT represents the cumulative tax cash flow difference for items treated differently for book and tax purposes. To the extent the net ADFIT balance is a liability, the ADFIT is in effect a cost-free loan provided by the federal government and represents a source of non-investor-supplied capital available for investment in utility property. This cost-free capital has therefore been deducted from rate base to provide ratepayers the benefit of such cost-free capital.

Q. HAVE YOU ASSIGNED THE ADFIT BALANCES INCLUDED IN RATE BASE TO THE REGULATED BUSINESS FUNCTIONS?

A. Yes, I have. RFP Schedule II-E-3.5, page 2, presents the functional allocations of ADFIT included in the Company's test-year rate base.

Q. HOW DID YOU DETERMINE THE FUNCTIONAL ASSIGNMENTS FOR ONCOR'S TEST-YEAR BALANCE OF ADFIT THAT IS INCLUDED IN RATE BASE?

A. Oncor's rate base ADFIT balances have largely been assigned to the regulated business functions on a functionalization factor method. For example, the property-related deferred tax balance in FERC account 282 comprises the largest amount of Oncor's net rate base ADFIT amount. The property-related ADFIT essentially results from the temporary difference between the accelerated depreciation (including "bonus" depreciation when applicable) allowed for income tax purposes and the straight-line depreciation recorded for book (and ratemaking) purposes. The assets making up this balance have been directly assigned to the transmission and distribution functions in the same manner as Oncor's property records. The property-related ADFIT amount has been assigned to the regulated business functions based on the ratio of each function's net plant investment for Oncor and Oncor NTU – functionalization factors PLTSVC-ONC and PLTSVC-NTU, respectively.

Generally, ADFIT balances that are not related to depreciable property for Oncor are either directly identifiable with a particular function or have been directly assigned to the functions based on the assignment of the temporary difference giving rise to the ADFIT. For example, another major component of Oncor's ADFIT balances is attributable to the self-insurance reserve regulatory asset. Such ADFIT results from the differences between the timing of when the property damage or liability claim costs are deductible for income tax purposes and when those costs are recorded as expense for book purposes. For instance, the property damage losses are deductible on Oncor's tax return in the year that the loss occurs. However, for book purposes, an expected amount of property damage losses are accrued to expense each year. To the extent the actual amount of losses are greater or less than the book expense, a temporary difference is created for which ADFIT is recorded. Because the self-insurance reserve ADFIT balance is directly related to the self-insurance reserve regulatory asset balance, the ADFIT balance is directly assigned to the same regulated business functions as the self-insurance reserve balance. RFP Schedule II-E-3.5, column I, lists the assignment methodology used for each ADFIT balance.

Q. WHAT ARE THE MATERIAL KNOWN AND MEASURABLE ADJUSTMENTS TO ADFIT INCLUDED IN THE RFP?

A. The material adjustments included in the RFP are for regulatory assets and liabilities not included in the rate base calculation.

Q. PLEASE EXPLAIN THE KNOWN AND MEASURABLE ADJUSTMENTS TO ADFIT RELATED TO REGULATORY ASSETS AND LIABILITIES.

A. Oncor made numerous commitments related to the merger that were adopted by the Commission in Docket No. 34077. The tax-related implications of these commitments were excluded from cost of service. Specifically, all effects of the energy efficiency obligation have been removed. The tax implications of several other tax-related regulatory assets and liabilities that are not included in the rate base calculation have also been removed.

Q. HAS THE COMPANY IMPLEMENTED THE ACCOUNTING REQUIREMENTS OF ASC 740 FOR INCOME TAXES?

A. Yes. In 1993, the Company implemented the accounting requirements of ASC 740 (formerly SFAS No. 109), as required by GAAP.

Q. ARE THERE ANY RATEMAKING IMPACTS FROM IMPLEMENTING ASC 740?

A. No. ASC 740 continues the concept of tax normalization followed by Accounting Principles Board Opinion No. 11, Accounting for Income Taxes ("APB 11"). While there are a number of procedural changes and a basic philosophical change from an emphasis on tax expense in income under APB 11 to the tax liability on the balance sheet under ASC 740, the net effect on setting rates is zero. RFP Schedule II-E-3.5 lists the ASC 740 related ADFIT liabilities and assets, and RFP Schedule II-B-12 lists the corresponding regulatory tax assets and liabilities recorded on the Company's books at the end of the test year. Such balances offset each other, so they are removed from the amount of ADFIT included in rate base.

Q. AS REQUIRED IN DOCKET NO. 46957, ONCOR'S LAST BASE-RATE CASE, DID ONCOR SEEK A PRIVATE LETTER RULING ("PLR") FROM THE IRS CONCERNING ONCOR'S PROPOSED TREATMENT OF ADFIT RELATED TO THE ASSET EXCHANGE WITH SHARYLAND DISTRIBUTION & TRANSMISSION SERVICES, LLC ("SDTS")?

A. Yes. On September 27, 2017, Oncor and SDTS filed a joint PLR requesting a ruling on the normalization rules related to the proposed treatment of ADFIT on the exchange of like kind properties between Oncor and SDTS. On March 23, 2018, Oncor received a favorable ruling from the IRS whereby the IRS concluded that Oncor's proposed treatment of ADFIT was not in violation of the normalization rules. This allowed Oncor to retain its rate base after the asset exchange at a level approximately equal to the rate base before the asset exchange.

## FIN 48

Q. PLEASE EXPLAIN WHAT IS MEANT BY FIN 48 AND DESCRIBE THE IMPACT OF ITS ADOPTION.

A. FASB Interpretation No. 48, <u>Accounting for Uncertainty in Income Taxes</u> ("FIN 48"), now codified by the FASB as ASC 740-10 was issued in June 2006 and it is intended to provide greater consistency in criteria used to recognize financial statement impacts related to UTPs taken in a company's annual income tax filings. FIN 48 is effective for fiscal years beginning after December 15, 2006. In accordance with the interpretation, Oncor adopted FIN 48 on January 1, 2007.

Prior to the issuance of FIN 48, the standard that controlled UTPs was Statement of Financial Accounting Standard No. 5 – <u>Accounting for Contingencies</u> ("SFAS 5"). FIN 48 deviates from SFAS 5 in that it establishes criteria for the initial financial statement recognition of tax positions, the de-recognition of tax positions, and the measurement of tax benefits, whereas SFAS 5 only provided criteria for de-recognizing ("reserving") previously booked benefits. Although there was diversity in companies' prior practice, most companies did not record the SFAS 5 income tax reserve against ADFIT. FIN 48 requires a two-step process for recognizing the effects of UTPs. In step one, the Company needs to assess whether the tax position has a "more-likely-than-not" probability of success (*i.e.*, sustained upon IRS audit). If this step cannot be passed, no benefit of any portion of a tax position (including the entire tax position, if applicable) is recognized for financial statement purposes. If the UTP meets the more-likely-than-not probability of success criteria, a tax benefit can be recorded at the largest amount where the cumulative probability of settlement exceeds 50%. At the time of adoption, FIN 48 provided that all previously recognized tax positions that did not meet the FIN 48 requirement for recognition be adjusted to reflect the provisions under FIN 48 for benefit recognition. As such, on January 1, 2007, Oncor adjusted its financial statements to reflect the adoption of FIN 48. For previously recorded permanent tax benefits that did not meet the standard of benefit recognition under FIN 48, Oncor established a non-current reserve to reflect the existence of a potential tax payment related to the tax position and accrued interest on the exposure item as prescribed by the IRS. For previously recorded tax benefits that represented temporary differences (and for which ADFIT had been recorded) that did not meet the standard of benefit recognition under FIN 48, Oncor reclassified the tax benefit from ADFIT to a non-current reserve to reflect the existence of a potential tax payment related to the deferred tax position and accrued interest on the exposure item at the rate prescribed by the IRS (the reserves recorded for such permanent and temporary items are known as the "FIN 48 Reserves"). Oncor continues to accrue interest on any recorded net liability.

Q. IS ONCOR PROPOSING ANY TYPE OF SPECIFIC TREATMENT FOR FIN 48, SUCH AS REMOVAL FROM ADFIT OR SOME TYPE OF TRACKING MECHANISM SIMILAR TO ONE PREVIOUSLY APPROVED FOR CENTERPOINT ENERGY?

A. No. Oncor's FIN 48 balance is currently quite low, and thus Oncor does not believe it is necessary to implement a tracking mechanism as part of this rate case. However, Oncor reserves the right to request such a tracking mechanism in a future proceeding, should it believe that one is appropriate at the time.

Q. HAVE YOU INCLUDED AMOUNTS RELATED TO FIN 48 IN ANY OF ONCOR'S TAX BALANCES?

A. No, I have not.

## XI. <u>TAX-RELATED REGULATORY ASSETS AND LIABILITIES</u>

Q. HAVE YOU INCLUDED ANY TAX-RELATED REGULATORY ASSETS OR LIABILITIES ON THE COMPANY'S RFP SCHEDULE II-B-12?

A. Yes. I have included both tax-related regulatory assets and tax-related regulatory liabilities on RFP Schedule II-B-12.

Q. ARE SUCH REGULATORY ASSETS AND LIABILITIES INCLUDED AS A COMPONENT OF RATE BASE?

A. The only tax-related regulatory assets or liabilities that are included in rate base for the test year are those associated with excess ADFIT. These are shown in FERC Accounts 182 and 254 on RFP Schedule II-B-12. See RFP Schedule II-B-12 for a listing of the tax related regulatory assets and liabilities. Earlier in my testimony I have previously explained the concept of excess ADFIT and the various components comprising the balances.

Q. HAS ONCOR AMORTIZED ANY EXCESS ADFIT RECORDED ON THE BOOKS OF ONCOR NTU AS A RESULT OF TCJA?

A. No. Under the commitment reflected in the Docket No. 48929 final order, none of the excess ADFIT recorded for Oncor NTU has been amortized.

Q. HAVE YOU ASSIGNED THE TEST-YEAR LEVEL OF THE EXCESS DEFERRED TAX-RELATED REGULATORY LIABILITIES TO THE REGULATED BUSINESS FUNCTIONS?

A. Yes, I have. I have assigned the tax-related regulatory liability balances for protected excess ADFIT, plant-related non-protected excess ADFIT, and the excess ADFIT reserve based on the ratio of each functions' net plant investment for Oncor and Oncor NTU – functionalization factors PLTSVC-ONC and PLTSVC-NTU, respectively, consistent with the functionalization of the excess ADFIT amortization. The remaining non-protected excess ADFIT balance that is not related to Oncor's net plant investment was directly assigned to the functions based on the assignment of the temporary differences giving rise to the excess ADFIT.

Q. ARE THERE ANY PENDING MATTERS OUTSTANDING THAT COULD HAVE AN IMPACT ON THE EXCESS ADFIT BALANCES OR LEVEL OF AMORTIZATION THAT HAVE BEEN INCLUDED IN THIS CASE?

A. Yes. Oncor is aware of several utilities that have requested PLRs from the IRS regarding the treatment of excess ADFIT related to removal costs. In response to several requests for PLR, the IRS indicated that the excess ADFIT related to removal costs is not protected by the normalization rules. As discussed in the direct testimony of Oncor witness Mr. Dane A. Watson, estimated net removal costs are included as book depreciation expense over the operating lives of the assets for accounting and ratemaking purposes. For income tax purposes, the removal costs are deductible when the asset is removed from service and the removal costs are incurred. This timing difference of when the removal costs are expensed creates a deferred tax asset because the cumulative amount of removal costs included in book depreciation is greater than the cumulative amount included on the income tax return. Currently, Oncor is treating its excess ADFIT asset related to removal costs as protected. Should the IRS issue additional guidance regarding the normalization requirements for excess ADFIT, the Company may be required to reclassify its excess ADFIT asset related to removal costs from protected to non-protected. If this reclassification is necessary, the net amount of protected excess ADFIT would increase while the net amount of non-protected excess ADFIT would decrease.

## XII. CORPORATE TAX LEGISLATION

Q. IS THERE ANY PENDING TAX LEGISLATION THAT WOULD HAVE AN IMPACT ON THE AMOUNT OF TAXES INCLUDED IN THIS CASE?

A. Possibly. President Biden's Build Back Better agenda ("BBB") included, among other things, a corporate alternative minimum tax ("CAMT") that would potentially impact Oncor's ADFIT balance over time. While a corporate income tax rate change is not included in the most recent version of the BBB, it is within the realm of possibility that a federal income tax rate increase could be enacted in addition to or in place of the CAMT.

In order to ensure that both Oncor and Oncor's ratepayers are unaffected by any FIT rate changes that might be enacted, and consistent with the final order in Docket No. 46957, Oncor requests that, if the corporate FIT rate is increased before Oncor's next base-rate case, when the change becomes effective, Oncor is authorized to record as a regulatory asset any amount that Oncor does not collect for FIT through the approved revenue requirement. If the corporate FIT rate is decreased before Oncor's next base-rate case, when the change becomes effective, Oncor requests authorization to record as a regulatory liability any amount that Oncor collects for FIT through the approved revenue requirement that is above the new corporate FIT rate. Any excess or deficient deferred taxes created by a tax rate change will be returned to or collected from ratepayers as prescribed by the Commission and in accordance with the normalization rules prescribed under federal income tax law. In addition to a corporate tax rate change, should there be any other changes to corporate tax regulations that would affect Oncor's rates, such as the reenactment of a CAMT, Oncor requests the authority to include the tax impact of such changes in Oncor's next base-rate case.

## XIII. AFFILIATE TAX SERVICES

Q. PLEASE DESCRIBE THE SERVICES THAT THE TAX DEPARTMENT OF SEMPRA PROVIDES TO ONCOR.

A. Sempra is contractually obligated under the terms of the TSA and other service-level agreements to provide tax services to Oncor. The overall objective of Sempra's tax department with respect to Oncor is to comply with the tax, reporting, and regulatory requirements applicable to Oncor. Oncor relies on Sempra's in-depth tax knowledge, business expertise, and established methodologies to provide reliable and accurate tax compliance, planning, and controversy services. It is Sempra's primary responsibility to monitor and research the latest tax developments and their application to Oncor to proactively pursue tax compliance and savings opportunities.

Sempra utilizes its knowledge of the utility business and tax law to assist Oncor with filing complete and accurate tax returns, as well as managing tax audits and controversies as they arise. By actively and responsibly managing Oncor's tax obligations, Oncor, with the assistance of Sempra's tax department, has been successful in avoiding significant penalties for failure to correctly report each of its tax positions.

Q. HOW DOES SEMPRA DETERMINE THE COST OF THE TAX SERVICES PROVIDED TO ONCOR?

A. For these tax services, Sempra assigns costs to Oncor based on an evaluation of the time and effort spent by Sempra Tax personnel on behalf of Oncor.

Q. IS IT APPROPRIATE FOR SEMPRA TO PROVIDE THESE TAX SERVICES TO ONCOR?

A. Yes. Sempra is able to leverage its resources, tax experience, business knowledge, networking contacts, and tax filing systems to provide tax services more efficiently and effectively than a third-party provider. It is also less costly than if Oncor staffed an equivalent stand-alone tax department.

Q. HOW MUCH DOES ONCOR PAY SEMPRA FOR TAX SERVICES?

A. The total cost of tax services provided by Sempra during the test year was $115,750. Please see the direct testimony of Company witness Mr. Michael G. Grable for further explanation of Sempra's tax service costs.

Q. DID ONCOR MAKE ANY KNOWN AND MEASURABLE ADJUSTMENTS IN THE TEST YEAR FOR THE AMOUNT CHARGED BY SEMPRA FOR TAX SERVICES?

A. Yes. The amount recorded in Oncor's expense during the test year for the estimated cost of the tax services provided by Sempra was slightly higher than the final amount Sempra charged. Therefore, a known and measurable adjustment was included to reduce the amount of affiliate costs included in cost of service by $4,250.

## XIV. SUMMARY AND CONCLUSION

Q. PLEASE SUMMARIZE YOUR DIRECT TESTIMONY IN THIS PROCEEDING.

A. My direct testimony supports the level of state, local, and federal income taxes requested in the cost of service, as adjusted and functionalized, to reasonably and appropriately reflect the results of Oncor for the test year ended December 31, 2021. It also supports the level of ADFIT and excess ADFIT reflected by Oncor in the RFP. These costs are reasonable, necessary, and properly reflect the Company's regulated activities.

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 Bonnie L. Clutter, who, having been placed under oath by me, did depose as follows:

My name is Bonnie L. Clutter. 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.

Bonnie L. Clutter
Bonnie L. Clutter

**SUBSCRIBED AND SWORN TO BEFORE ME** by the said Bonnie L. Clutter this 13th day of April, 2022.

MICHELE M. GIBSON
Notary Public, State of Texas
Comm. Expires 06-30-2022
Notary ID 575631-8

Notary Public, State of Texas

**ONCOR ELECTRIC DELIVERY COMPANY LLC**
**MUNICIPAL FRANCHISE FEE FACTORS IN EFFECT IN 2021**
**SPONSOR: BONNIE L. CLUTTER**

| Line No. | City | Franchise Fee Factor | Rate on Discretionary Services |
|---|---|---|---|
| 1 | ABBOTT | 0.003593 | 0.040000 |
| 2 | ACKERLY | 0.003702 | 0.040000 |
| 3 | ADDISON | 0.002671 | 0.040000 |
| 4 | ALEDO | 0.003375 | 0.040000 |
| 5 | ALLEN | 0.002934 | 0.040000 |
| 6 | ALMA | 0.003247 | 0.040000 |
| 7 | ALTO | 0.002103 | 0.040000 |
| 8 | ALVARADO | 0.003251 | 0.040000 |
| 9 | ALVORD | 0.003419 | 0.040000 |
| 10 | ANDREWS | 0.003302 | 0.040000 |
| 11 | ANGUS | 0.003274 | 0.040000 |
| 12 | ANNA | 0.003453 | 0.040000 |
| 13 | ANNETTA | 0.003072 | 0.040000 |
| 14 | ANNETTA NORTH | 0.003132 | 0.040000 |
| 15 | ANNETTA SOUTH | 0.003108 | 0.040000 |
| 16 | ANNONA | 0.003508 | 0.040000 |
| 17 | APPLEBY | 0.003362 | 0.040000 |
| 18 | ARCHER CITY | 0.003438 | 0.040000 |
| 19 | ARGYLE | 0.003372 | 0.040000 |
| 20 | ARLINGTON | 0.002904 | 0.040000 |
| 21 | ARP | 0.002148 | 0.040000 |
| 22 | ATHENS | 0.003114 | 0.040000 |
| 23 | AURORA | 0.003395 | 0.040000 |
| 24 | AUSTIN | 0.001980 | 0.000000 |
| 25 | AZLE | 0.003147 | 0.040000 |
| 26 | BALCH SPRINGS | 0.003229 | 0.040000 |
| 27 | BANGS | 0.003449 | 0.040000 |
| 28 | BARDWELL | 0.003491 | 0.040000 |
| 29 | BARRY | 0.003447 | 0.040000 |
| 30 | BARTLETT | 0.003502 | 0.040000 |
| 31 | BEDFORD | 0.003044 | 0.040000 |
| 32 | BELLEVUE | 0.003372 | 0.040000 |
| 33 | BELLMEAD | 0.002965 | 0.040000 |
| 34 | BELLS | 0.003521 | 0.040000 |
| 35 | BELTON | 0.003271 | 0.040000 |
| 36 | BENBROOK | 0.003152 | 0.040000 |
| 37 | BEVERLY HILLS | 0.003125 | 0.040000 |
| 38 | BIG SPRING | 0.002804 | 0.040000 |
| 39 | BLANKET | 0.003651 | 0.040000 |
| 40 | BLOOMING GROVE | 0.003495 | 0.040000 |
| 41 | BLUE MOUND | 0.003353 | 0.040000 |

**ONCOR ELECTRIC DELIVERY COMPANY LLC**
**MUNICIPAL FRANCHISE FEE FACTORS IN EFFECT IN 2021**
**SPONSOR: BONNIE L. CLUTTER**

| Line No. | City | Franchise Fee Factor | Rate on Discretionary Services |
|---|---|---|---|
| 42 | BONHAM | 0.002643 | 0.040000 |
| 43 | BOYD | 0.003401 | 0.040000 |
| 44 | BRADY | 0.004565 | 0.000000 |
| 45 | BRECKENRIDGE | 0.002364 | 0.040000 |
| 46 | BRIDGEPORT | 0.002674 | 0.040000 |
| 47 | BROWNSBORO | 0.003410 | 0.040000 |
| 48 | BROWNWOOD | 0.003222 | 0.040000 |
| 49 | BRUCEVILLE-EDDY | 0.003296 | 0.040000 |
| 50 | BUCKHOLTS | 0.003835 | 0.040000 |
| 51 | BUFFALO | 0.003290 | 0.040000 |
| 52 | BULLARD | 0.002757 | 0.040000 |
| 53 | BURKBURNETT | 0.003153 | 0.040000 |
| 54 | BURKE | 0.003504 | 0.040000 |
| 55 | BURLESON | 0.003125 | 0.040000 |
| 56 | BYNUM | 0.003543 | 0.040000 |
| 57 | CADDO MILLS | 0.003589 | 0.000000 |
| 58 | CAMERON | 0.003017 | 0.040000 |
| 59 | CAMPBELL | 0.003423 | 0.040000 |
| 60 | CANEY CITY | 0.003453 | 0.040000 |
| 61 | CANTON | 0.003377 | 0.040000 |
| 62 | CARBON | 0.003669 | 0.040000 |
| 63 | CARROLLTON | 0.002830 | 0.040000 |
| 64 | CASHION COMMUNITY | 0.003372 | 0.040000 |
| 65 | CEDAR HILL | 0.003057 | 0.040000 |
| 66 | CELINA | 0.003360 | 0.040000 |
| 67 | CENTERVILLE | 0.003308 | 0.040000 |
| 68 | CHANDLER | 0.003224 | 0.040000 |
| 69 | CHICO | 0.003399 | 0.040000 |
| 70 | CHIRENO | 0.003515 | 0.040000 |
| 71 | CLARKSVILLE | 0.003239 | 0.040000 |
| 72 | CLEBURNE | 0.002472 | 0.040000 |
| 73 | COAHOMA | 0.003421 | 0.040000 |
| 74 | COCKRELL HILL | 0.003477 | 0.040000 |
| 75 | COLLEYVILLE | 0.003133 | 0.040000 |
| 76 | COLLINSVILLE | 0.003373 | 0.040000 |
| 77 | COLORADO CITY | 0.003134 | 0.040000 |
| 78 | COMANCHE | 0.003363 | 0.040000 |
| 79 | COMMERCE | 0.002608 | 0.040000 |
| 80 | COMO | 0.003581 | 0.040000 |
| 81 | COOL | 0.003597 | 0.040000 |
| 82 | COOLIDGE | 0.002553 | 0.040000 |

**ONCOR ELECTRIC DELIVERY COMPANY LLC**
**MUNICIPAL FRANCHISE FEE FACTORS IN EFFECT IN 2021**
**SPONSOR: BONNIE L. CLUTTER**

| Line No. | City | Franchise Fee Factor | Rate on Discretionary Services |
|---|---|---|---|
| 83 | COOPER | 0.003440 | 0.040000 |
| 84 | COPPELL | 0.003056 | 0.040000 |
| 85 | COPPERAS COVE | 0.003249 | 0.040000 |
| 86 | CORINTH | 0.003046 | 0.040000 |
| 87 | CORSICANA | 0.002766 | 0.040000 |
| 88 | COUPLAND | 0.003587 | 0.040000 |
| 89 | CRANDALL | 0.003326 | 0.040000 |
| 90 | CRANE | 0.003376 | 0.040000 |
| 91 | CRESSON | 0.003597 | 0.040000 |
| 92 | CROCKETT | 0.003227 | 0.040000 |
| 93 | CROSS ROADS | 0.003430 | 0.040000 |
| 94 | CROWLEY | 0.003250 | 0.040000 |
| 95 | CUMBY | 0.003494 | 0.040000 |
| 96 | CUSHING | 0.003378 | 0.040000 |
| 97 | DALLAS | 0.002753 | 0.040000 |
| 98 | DALWORTHINGTON GARDI | 0.003174 | 0.040000 |
| 99 | DAWSON | 0.003506 | 0.040000 |
| 100 | DE LEON | 0.003444 | 0.040000 |
| 101 | DEAN | 0.003270 | 0.040000 |
| 102 | DECATUR | 0.002855 | 0.040000 |
| 103 | DENISON | 0.002904 | 0 040000 |
| 104 | DENTON | 0.003002 | 0.040000 |
| 105 | DESOTO | 0.003173 | 0.040000 |
| 106 | DIBOLL | 0.001835 | 0.040000 |
| 107 | DISH | 0.004502 | 0.040000 |
| 108 | DODD CITY | 0.003607 | 0.040000 |
| 109 | DORCHESTER | 0.002612 | 0.040000 |
| 110 | DUBLIN | 0.003417 | 0.040000 |
| 111 | DUNCANVILLE | 0.003179 | 0.040000 |
| 112 | EARLY | 0.003382 | 0.040000 |
| 113 | EASTLAND | 0.003305 | 0.040000 |
| 114 | ECTOR | 0.003516 | 0.040000 |
| 115 | EDGECLIFF VILLAGE | 0.002936 | 0.040000 |
| 116 | EDGEWOOD | 0.003472 | 0.040000 |
| 117 | EDOM | 0.003408 | 0.040000 |
| 118 | ELECTRA | 0.003334 | 0.040000 |
| 119 | ELGIN | 0.003292 | 0.040000 |
| 120 | ELKHART | 0.003592 | 0.040000 |
| 121 | EMHOUSE | 0.003680 | 0.040000 |
| 122 | ENCHANTED OAKS | 0.003195 | 0.040000 |
| 123 | ENNIS | 0.002753 | 0.040000 |

**ONCOR ELECTRIC DELIVERY COMPANY LLC**
**MUNICIPAL FRANCHISE FEE FACTORS IN EFFECT IN 2021**
**SPONSOR: BONNIE L. CLUTTER**

| Line No. | City | Franchise Fee Factor | Rate on Discretionary Services |
|---|---|---|---|
| 124 | EULESS | 0.003120 | 0.040000 |
| 125 | EUREKA | 0.003473 | 0.040000 |
| 126 | EUSTACE | 0.003530 | 0.040000 |
| 127 | EVERMAN | 0.003357 | 0.040000 |
| 128 | FAIRFIELD | 0.002707 | 0.040000 |
| 129 | FAIRVIEW | 0.003120 | 0.040000 |
| 130 | FARMERS BRANCH | 0.002575 | 0.040000 |
| 131 | FARMERSVILLE | 0.003112 | 0.000000 |
| 132 | FATE | 0.003804 | 0.040000 |
| 133 | FERRIS | 0.003296 | 0.040000 |
| 134 | FLORENCE | 0.003384 | 0.040000 |
| 135 | FLOWER MOUND | 0.003183 | 0.040000 |
| 136 | FOREST HILL | 0.003061 | 0.040000 |
| 137 | FORNEY | 0.003342 | 0.040000 |
| 138 | FORSAN | 0.003431 | 0.040000 |
| 139 | FORT WORTH | 0.002784 | 0.040000 |
| 140 | FRANKSTON | 0.002852 | 0.040000 |
| 141 | FRISCO | 0.003112 | 0.040000 |
| 142 | FROST | 0.003503 | 0.040000 |
| 143 | GAINESVILLE | 0.002914 | 0.040000 |
| 144 | GALLATIN | 0.002167 | 0.040000 |
| 145 | GARLAND | 0.002924 | 0.040000 |
| 146 | GARRETT | 0.003462 | 0.040000 |
| 147 | GEORGETOWN | 0.002629 | 0.040000 |
| 148 | GHOLSON | 0.003431 | 0.040000 |
| 149 | GLENN HEIGHTS | 0.003266 | 0.040000 |
| 150 | GODLEY | 0.003402 | 0.040000 |
| 151 | GOLINDA | 0.003413 | 0.040000 |
| 152 | GOODLOW | 0.003470 | 0.040000 |
| 153 | GORMAN | 0.003195 | 0.040000 |
| 154 | GRAFORD | 0.003451 | 0.040000 |
| 155 | GRAHAM | 0.003130 | 0.040000 |
| 156 | GRAND PRAIRIE | 0.002784 | 0.040000 |
| 157 | GRANDFALLS | 0.003595 | 0.040000 |
| 158 | GRANDVIEW | 0.003371 | 0.040000 |
| 159 | GRANGER | 0.003562 | 0.040000 |
| 160 | GRAPELAND | 0.003484 | 0.040000 |
| 161 | GRAPEVINE | 0.002672 | 0.040000 |
| 162 | GREENVILLE | 0.003589 | 0.000000 |
| 163 | GROESBECK | 0.001954 | 0.040000 |
| 164 | GUN BARREL CITY | 0.003143 | 0.040000 |

**ONCOR ELECTRIC DELIVERY COMPANY LLC**
**MUNICIPAL FRANCHISE FEE FACTORS IN EFFECT IN 2021**
**SPONSOR: BONNIE L. CLUTTER**

| Line No. | City | Franchise Fee Factor | Rate on Discretionary Services |
|---|---|---|---|
| 165 | GUNTER | 0.003258 | 0.040000 |
| 166 | HALTOM CITY | 0.003293 | 0.040000 |
| 167 | HARKER HEIGHTS | 0.003254 | 0.040000 |
| 168 | HASLET | 0.002416 | 0.040000 |
| 169 | HEATH | 0.003226 | 0.040000 |
| 170 | HEBRON | 0.003360 | 0.040000 |
| 171 | HENRIETTA | 0.003387 | 0.040000 |
| 172 | HEWITT | 0.003213 | 0.040000 |
| 173 | HICKORY CREEK | 0.003288 | 0.040000 |
| 174 | HIDEAWAY | 0.002730 | 0.040000 |
| 175 | HIGHLAND PARK | 0.003029 | 0.040000 |
| 176 | HILLSBORO | 0.003075 | 0.040000 |
| 177 | HOLLAND | 0.003514 | 0.040000 |
| 178 | HOLLIDAY | 0.003384 | 0.040000 |
| 179 | HONEY GROVE | 0.003557 | 0.040000 |
| 180 | HOWE | 0.003407 | 0.040000 |
| 181 | HUBBARD | 0.003417 | 0.040000 |
| 182 | HUDSON | 0.003317 | 0.040000 |
| 183 | HUDSON OAKS | 0.003023 | 0.040000 |
| 184 | HUNTINGTON | 0.003259 | 0.040000 |
| 185 | HURST | 0.003128 | 0.040000 |
| 186 | HUTCHINS | 0.002743 | 0.040000 |
| 187 | HUTTO | 0.003565 | 0.040000 |
| 188 | IOWA PARK | 0.003322 | 0.040000 |
| 189 | IRVING | 0.002783 | 0.040000 |
| 190 | ITALY | 0.003431 | 0.040000 |
| 191 | ITASCA | 0.003498 | 0.040000 |
| 192 | JACKSBORO | 0.003301 | 0.040000 |
| 193 | JACKSONVILLE | 0.002473 | 0.040000 |
| 194 | JARRELL | 0.003587 | 0.040000 |
| 195 | JEWETT | 0.003331 | 0.040000 |
| 196 | JOLLY | 0.003115 | 0.040000 |
| 197 | JOSEPHINE | 0.003382 | 0.040000 |
| 198 | JOSHUA | 0.003346 | 0.040000 |
| 199 | JUSTIN | 0.003405 | 0.040000 |
| 200 | KAUFMAN | 0.003180 | 0.040000 |
| 201 | KEENE | 0.003174 | 0.040000 |
| 202 | KELLER | 0.003214 | 0.040000 |
| 203 | KEMP | 0.003502 | 0.040000 |
| 204 | KENNEDALE | 0.003074 | 0.040000 |
| 205 | KERENS | 0.003478 | 0.040000 |

**ONCOR ELECTRIC DELIVERY COMPANY LLC**
**MUNICIPAL FRANCHISE FEE FACTORS IN EFFECT IN 2021**
**SPONSOR: BONNIE L. CLUTTER**

| Line No. | City | Franchise Fee Factor | Rate on Discretionary Services |
|---|---|---|---|
| 206 | KILLEEN | 0.003193 | 0.040000 |
| 207 | KNOLLWOOD | 0.003293 | 0.040000 |
| 208 | KRUM | 0.003376 | 0.040000 |
| 209 | LACY-LAKEVIEW | 0.003150 | 0.040000 |
| 210 | LADONIA | 0.002947 | 0.040000 |
| 211 | LAKE BRIDGEPORT | 0.003405 | 0.040000 |
| 212 | LAKE DALLAS | 0.003276 | 0.040000 |
| 213 | LAKE WORTH | 0.003017 | 0.040000 |
| 214 | LAKESIDE | 0.003326 | 0.040000 |
| 215 | LAKESIDE CITY | 0.003149 | 0.040000 |
| 216 | LAMESA | 0.003197 | 0.040000 |
| 217 | LANCASTER | 0.003059 | 0.040000 |
| 218 | LATEXO | 0.003373 | 0.040000 |
| 219 | LAVON | 0.003544 | 0.040000 |
| 220 | LEONA | 0.003456 | 0.040000 |
| 221 | LEROY | 0.003530 | 0.040000 |
| 222 | LEWISVILLE | 0.004590 | 0.040000 |
| 223 | LINDALE | 0.003149 | 0.040000 |
| 224 | LINDSAY | 0.003363 | 0.040000 |
| 225 | LIPAN | 0.003568 | 0.040000 |
| 226 | LITTLE ELM | 0.004458 | 0.040000 |
| 227 | LITTLE RIVER ACADEMY | 0.003314 | 0.040000 |
| 228 | LORAINE | 0.003721 | 0.040000 |
| 229 | LORENA | 0.003305 | 0.040000 |
| 230 | LOTT | 0.002222 | 0.040000 |
| 231 | LOVELADY | 0.003498 | 0.040000 |
| 232 | LOWRY CROSSING | 0.003190 | 0.040000 |
| 233 | LUCAS | 0.003062 | 0.040000 |
| 234 | LUFKIN | 0.002511 | 0.040000 |
| 235 | MABANK | 0.003321 | 0.040000 |
| 236 | MALAKOFF | 0.002989 | 0.040000 |
| 237 | MALONE | 0.003623 | 0.040000 |
| 238 | MANOR | 0.003293 | 0.040000 |
| 239 | MANSFIELD | 0.002976 | 0 040000 |
| 240 | MARLIN | 0.002640 | 0.040000 |
| 241 | MARQUEZ | 0.003437 | 0.040000 |
| 242 | MART | 0.002128 | 0.040000 |
| 243 | MAYPEARL | 0.003456 | 0.040000 |
| 244 | MCGREGOR | 0.003305 | 0.040000 |
| 245 | MCKINNEY | 0.002864 | 0.040000 |
| 246 | MCLENDON-CHISHOLM | 0.003192 | 0.000000 |

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**SPONSOR: BONNIE L. CLUTTER**

| Line No. | City | Franchise Fee Factor | Rate on Discretionary Services |
|---|---|---|---|
| 247 | MELISSA | 0.003280 | 0.040000 |
| 248 | MERTENS | 0.003650 | 0.040000 |
| 249 | MESQUITE | 0.003023 | 0.040000 |
| 250 | MEXIA | 0.002023 | 0.040000 |
| 251 | MIDLAND | 0.003091 | 0.040000 |
| 252 | MIDLOTHIAN | 0.001386 | 0.040000 |
| 253 | MILANO | 0.003537 | 0.040000 |
| 254 | MILDRED | 0.003443 | 0.040000 |
| 255 | MILFORD | 0.003552 | 0.040000 |
| 256 | MILLSAP | 0.003543 | 0.040000 |
| 257 | MINERAL WELLS | 0.003033 | 0.040000 |
| 258 | MOBILE CITY | 0.002892 | 0.040000 |
| 259 | MONAHANS | 0.003311 | 0.040000 |
| 260 | MOODY | 0.003468 | 0.040000 |
| 261 | MORGANS POINT RESORT | 0.003241 | 0.040000 |
| 262 | MOUNT CALM | 0.003465 | 0.040000 |
| 263 | MUENSTER | 0.003582 | 0.040000 |
| 264 | MURCHISON | 0.003519 | 0.040000 |
| 265 | MURPHY | 0.003232 | 0.040000 |
| 266 | MUSTANG | 0.003910 | 0.040000 |
| 267 | NACOGDOCHES | 0.002697 | 0.040000 |
| 268 | NAVARRO | 0.003368 | 0.040000 |
| 269 | NEVADA | 0.003388 | 0.040000 |
| 270 | NEW CHAPEL HILL | 0.003314 | 0.040000 |
| 271 | NEW FAIRVIEW | 0.003631 | 0.040000 |
| 272 | NEW SUMMERFIELD | 0.002149 | 0.040000 |
| 273 | NEWARK | 0.003248 | 0.040000 |
| 274 | NEYLANDVILLE | 0.003302 | 0.040000 |
| 275 | NOLANVILLE | 0.002531 | 0.040000 |
| 276 | NOONDAY | 0.003256 | 0.040000 |
| 277 | NORTH RICHLAND HILLS | 0.002979 | 0.040000 |
| 278 | NORTHLAKE | 0.004590 | 0.040000 |
| 279 | O DONNELL | 0.003499 | 0.040000 |
| 280 | OAK GROVE | 0.003140 | 0.040000 |
| 281 | OAK LEAF | 0.003113 | 0.040000 |
| 282 | OAK POINT | 0.003232 | 0.040000 |
| 283 | OAK VALLEY | 0.003337 | 0.040000 |
| 284 | OAKWOOD | 0.003512 | 0.040000 |
| 285 | ODESSA | 0.003198 | 0.040000 |
| 286 | OGLESBY | 0.003581 | 0.040000 |
| 287 | OVERTON | 0.002004 | 0.040000 |

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| Line No. | City | Franchise Fee Factor | Rate on Discretionary Services |
|---|---|---|---|
| 288 | OVILLA | 0.003190 | 0.040000 |
| 289 | PALESTINE | 0.003168 | 0.040000 |
| 290 | PALMER | 0.003398 | 0.040000 |
| 291 | PANTEGO | 0.003371 | 0.040000 |
| 292 | PARADISE | 0.003645 | 0.040000 |
| 293 | PARIS | 0.002527 | 0.040000 |
| 294 | PARKER | 0.003183 | 0.040000 |
| 295 | PAYNE SPRINGS | 0.003321 | 0.040000 |
| 296 | PECAN GAP | 0.003721 | 0.040000 |
| 297 | PECAN HILL | 0.003085 | 0.040000 |
| 298 | PENELOPE | 0.003837 | 0.040000 |
| 299 | PFLUGERVILLE | 0.003357 | 0.040000 |
| 300 | PLANO | 0.002867 | 0.040000 |
| 301 | PLEASANT VALLEY | 0.003372 | 0.040000 |
| 302 | POETRY | 0.003589 | 0.040000 |
| 303 | PONDER | 0.003367 | 0.040000 |
| 304 | POST OAK BEND | 0.003325 | 0.040000 |
| 305 | POTTSBORO | 0.003324 | 0.040000 |
| 306 | POWELL | 0.003652 | 0.040000 |
| 307 | POYNOR | 0.002157 | 0.040000 |
| 308 | PRINCETON | 0.003544 | 0.040000 |
| 309 | PROSPER | 0.003476 | 0.040000 |
| 310 | PYOTE | 0.003735 | 0.040000 |
| 311 | QUINLAN | 0.003296 | 0.040000 |
| 312 | RANGER | 0.003394 | 0.040000 |
| 313 | RAVENNA | 0.003604 | 0.040000 |
| 314 | RED OAK | 0.003213 | 0.040000 |
| 315 | RENO - LAMAR County | 0.003183 | 0.040000 |
| 316 | RENO - PARKER County | 0.003087 | 0.000000 |
| 317 | RETREAT | 0.001842 | 0.040000 |
| 318 | RHOME | 0.003339 | 0.040000 |
| 319 | RICE | 0.003395 | 0.040000 |
| 320 | RICHARDSON | 0.002738 | 0.040000 |
| 321 | RICHLAND | 0.003358 | 0.040000 |
| 322 | RICHLAND HILLS | 0.003249 | 0.040000 |
| 323 | RICHLAND SPRINGS | 0.004823 | 0.000000 |
| 324 | RIESEL | 0.002134 | 0.040000 |
| 325 | RIVER OAKS | 0.003427 | 0.040000 |
| 326 | ROANOKE | 0.003325 | 0.040000 |
| 327 | ROBINSON | 0.003275 | 0.040000 |
| 328 | ROCKDALE | 0.003317 | 0.040000 |

**ONCOR ELECTRIC DELIVERY COMPANY LLC**
**MUNICIPAL FRANCHISE FEE FACTORS IN EFFECT IN 2021**
**SPONSOR: BONNIE L. CLUTTER**

| Line No. | City | Franchise Fee Factor | Rate on Discretionary Services |
|---|---|---|---|
| 329 | ROCKWALL | 0.002954 | 0.040000 |
| 330 | ROGERS | 0.003445 | 0.040000 |
| 331 | ROSCOE | 0.003488 | 0.040000 |
| 332 | ROSEBUD | 0.002198 | 0.040000 |
| 333 | ROSSER | 0.003421 | 0.040000 |
| 334 | ROUND ROCK | 0.002927 | 0.040000 |
| 335 | ROWLETT | 0.003221 | 0.040000 |
| 336 | ROXTON | 0.003681 | 0.040000 |
| 337 | ROYSE CITY | 0.003237 | 0.040000 |
| 338 | RUNAWAY BAY | 0.003260 | 0.040000 |
| 339 | RUSK | 0.002423 | 0.040000 |
| 340 | SACHSE | 0.003334 | 0.040000 |
| 341 | SADLER | 0.003521 | 0.040000 |
| 342 | SAGINAW | 0.002797 | 0.040000 |
| 343 | SALADO | 0.003514 | 0.040000 |
| 344 | SANCTUARY | 0.003241 | 0.040000 |
| 345 | SANSOM PARK | 0.003408 | 0.040000 |
| 346 | SAVOY | 0.003287 | 0.040000 |
| 347 | SEAGOVILLE | 0.003190 | 0.040000 |
| 348 | SHADY SHORES | 0.003298 | 0.040000 |
| 349 | SHERMAN | 0.002395 | 0.040000 |
| 350 | SNYDER | 0.003332 | 0.040000 |
| 351 | SOUTHLAKE | 0.003183 | 0.040000 |
| 352 | SOUTHMAYD | 0.002965 | 0.040000 |
| 353 | SPRINGTOWN | 0.003220 | 0.040000 |
| 354 | ST. PAUL | 0.003280 | 0.040000 |
| 355 | STANTON | 0.003462 | 0.040000 |
| 356 | STEPHENVILLE | 0.002939 | 0.040000 |
| 357 | STREETMAN | 0.003681 | 0.040000 |
| 358 | SULPHUR SPRINGS | 0.002905 | 0.040000 |
| 359 | SUNNYVALE | 0.002555 | 0.040000 |
| 360 | SWEETWATER | 0.003255 | 0.040000 |
| 361 | TAYLOR | 0.003182 | 0.040000 |
| 362 | TEAGUE | 0.002853 | 0.040000 |
| 363 | TEHUACANA | 0.002953 | 0.040000 |
| 364 | TEMPLE | 0.002652 | 0.040000 |
| 365 | TERRELL | 0.002564 | 0.040000 |
| 366 | THE COLONY | 0.003127 | 0.040000 |
| 367 | THORNDALE | 0.003573 | 0.040000 |
| 368 | THORNTON | 0.003025 | 0.040000 |
| 369 | THORNTONVILLE | 0.003573 | 0.040000 |

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**MUNICIPAL FRANCHISE FEE FACTORS IN EFFECT IN 2021**
**SPONSOR: BONNIE L. CLUTTER**

| Line No. | City | Franchise Fee Factor | Rate on Discretionary Services |
|---|---|---|---|
| 370 | THRALL | 0.003587 | 0.040000 |
| 371 | TIRA | 0.003332 | 0.040000 |
| 372 | TOOL | 0.003295 | 0.040000 |
| 373 | TRINIDAD | 0.003109 | 0.040000 |
| 374 | TROPHY CLUB | 0.003125 | 0.040000 |
| 375 | TROUP | 0.001985 | 0.040000 |
| 376 | TROY | 0.002793 | 0.040000 |
| 377 | TYLER | 0.002780 | 0.040000 |
| 378 | UNIVERSITY PARK | 0.002932 | 0.040000 |
| 379 | VALLEY VIEW | 0.003173 | 0.040000 |
| 380 | VAN | 0.003348 | 0.040000 |
| 381 | VAN ALSTYNE | 0.003325 | 0.040000 |
| 382 | VENUS | 0.003479 | 0.040000 |
| 383 | WACO | 0.002762 | 0.040000 |
| 384 | WATAUGA | 0.003116 | 0.040000 |
| 385 | WAXAHACHIE | 0.002210 | 0.040000 |
| 386 | WEATHERFORD | 0.001691 | 0.040000 |
| 387 | WEIR | 0.003347 | 0.040000 |
| 388 | WELLS | 0.003353 | 0.040000 |
| 389 | WEST | 0.003440 | 0.040000 |
| 390 | WESTBROOK | 0.003696 | 0.040000 |
| 391 | WESTOVER HILLS | 0.002942 | 0.040000 |
| 392 | WESTWORTH VILLAGE | 0.002424 | 0.040000 |
| 393 | WHITE SETTLEMENT | 0.003100 | 0.040000 |
| 394 | WHITEHOUSE | 0.002733 | 0.040000 |
| 395 | WICHITA FALLS | 0.002983 | 0.040000 |
| 396 | WICKETT | 0.002645 | 0.040000 |
| 397 | WILLOW PARK | 0.002976 | 0.040000 |
| 398 | WILLS POINT | 0.003327 | 0.040000 |
| 399 | WILMER | 0.003388 | 0.040000 |
| 400 | WINDOM | 0.003616 | 0.040000 |
| 401 | WINK | 0.003440 | 0.040000 |
| 402 | WOLFE CITY | 0.003308 | 0.040000 |
| 403 | WOODWAY | 0.002827 | 0.040000 |
| 404 | WORTHAM | 0.002903 | 0.040000 |
| 405 | WYLIE | 0.002791 | 0.040000 |
| 406 | YANTIS | 0.003400 | 0.040000 |
| 407 | ZAVALLA | 0.003361 | 0.040000 |

Form **8832** (Rev. March 2007) Department of the Treasury Internal Revenue Service

## Entity Classification Election

OMB No. 1545-1516

| | Name of eligible entity making election | Employer identification number |
|---|---|---|
| Type or Print | Texas Transmission Investment LLC | 98-0597163 |
| | Number, street, and room or suite no. If a P.O. box, see instructions. 200 Bay Street, Suite 2100 | |
| | City or town, state, and ZIP code. If a foreign address, enter city, province or state, postal code and country. Follow the country's practice for entering the postal code. Toronto, Ontario M5J 2J2 Canada | |

► Check if: ☐ Address change

1 **Type of election (see instructions):**

a ☒ Initial classification by a newly-formed entity. Skip lines 2a and 2b and go to line 3.
b ☐ Change in current classification. Go to line 2a.

2a Has the eligible entity previously filed an entity election that had an effective date within the last 60 months?

☐ Yes. Go to line 2b.
☐ No. Skip line 2b and go to line 3.

2b Was the eligible entity's prior election for initial classification by a newly formed entity effective on the date of formation?

☐ Yes. Go to line 3.
☐ No. Stop here. You generally are not currently eligible to make the election (see instructions).

3 Does the eligible entity have more than one owner?

☐ Yes. You can elect to be classified as a partnership or an association taxable as a corporation. Skip line 4 and go to line 5.
☒ No. You can elect to be classified as an association taxable as a corporation or disregarded as a separate entity. Go to line 4.

4 If the eligible entity has only one owner, provide the following information:
a Name of owner ► Texas Transmission Holdings Corporation
b Identifying number of owner ► 98-0597159

5 If the eligible entity is owned by one or more affiliated corporations that file a consolidated return, provide the name and employer identification number of the parent corporation:
a Name of parent corporation ► ..........
b Employer identification number ► ..........

For Paperwork Reduction Act Notice, see Instructions. Form 8832 (Rev. 3-2007)
ISA

STF HOZL1000.1

**6 Type of entity (see instructions):**

a ☒ A domestic eligible entity electing to be classified as an association taxable as a corporation.
b ☐ A domestic eligible entity electing to be classified as a partnership.
c ☐ A domestic eligible entity with a single owner electing to be disregarded as a separate entity.
d ☐ A foreign eligible entity electing to be classified as an association taxable as a corporation.
e ☐ A foreign eligible entity electing to be classified as a partnership.
f ☐ A foreign eligible entity with a single owner electing to be disregarded as a separate entity.

**7** If the eligible entity is created or organized in a foreign jurisdiction, provide the foreign country of organization ▶ ..........

**8** Election is to be effective beginning (month, day, year) (see instructions) . . . . . . . . . . . . ▶ 08/11/08

| 9 Name and title of contact person whom the IRS may call for more information | 10 Contact person's telephone number |
|---|---|
| Gregg T. Larson - c/o Torys LLP | 212 880-6168 |

**Consent Statement and Signature(s) (see instructions)**

Under penalties of perjury, I (we) declare that I (we) consent to the election of the above-named entity to be classified as indicated above, and that I (we) have examined this consent statement, and to the best of my (our) knowledge and belief, it is true, correct, and complete. If I am an officer, manager, or member signing for all members of the entity, I further declare that I am authorized to execute this consent statement on their behalf.

| Signature(s) | Date | Title |
|---|---|---|
| | 10/14/08 | |

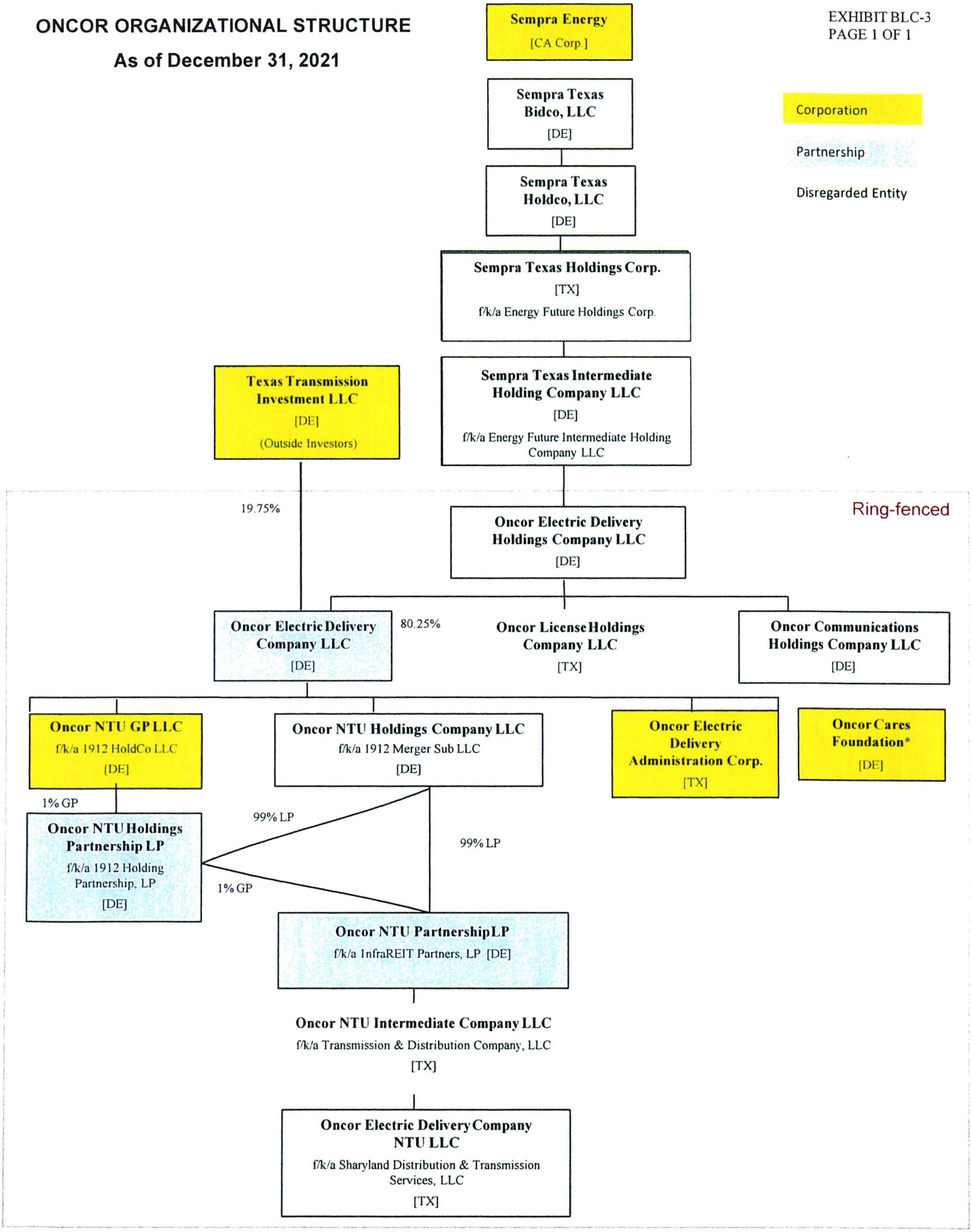


GTF NO2L1000.2

# ONCOR ORGANIZATIONAL STRUCTURE

## As of December 31, 2021






* Oncor Cares Foundation [DE] is a nonstock corporation formed for charitable, scientific, and educational purposes under Section 501(c)(3) of the U.S. Internal Revenue Code; Oncor Electric Delivery Company LLC is the sole member of the Oncor Cares Foundation.

Note: Oncor Electric Delivery Company LLC owns 32% of 926 Pulliam Street, LLC [TX]; the entity is not included in the chart above.

# 2022 RATE CASE
# ONCOR ELECTRIC DELIVERY COMPANY LLC
# WORKPAPERS FOR
# THE DIRECT TESTIMONY OF
# BONNIE L. CLUTTER

Ms. Clutter has no supporting workpapers for her direct testimony.

**INDEX TO THE DIRECT TESTIMONY**
**OF ASHLEY THENMADATHIL, WITNESS FOR**
**<u>ONCOR ELECTRIC DELIVERY COMPANY LLC</u>**

## DIRECT TESTIMONY OF ASHLEY THENMADATHIL

## I. POSITION AND QUALIFICATIONS

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

A. My name is Ashley Thenmadathil. My business address is 1616 Woodall Rodgers Freeway, Dallas, Texas 75202. I am the Manager of Financial Planning and Management Reporting for Oncor Electric Delivery Company LLC ("Oncor" or "Company").

Q. WHAT ARE THE KEY RESPONSIBILITIES OF YOUR CURRENT EMPLOYMENT POSITION?

A. Oncor's Financial Planning and Management Reporting group is primarily responsible for the Company's internal financial reporting and developing key components of the Company's annual business plans, particularly operating expenses. My duties, some of which may be delegated to other members of my team of financial analysts, generally include:

- detailed analysis of income statement, balance sheet, and cash flow;
- facilitating internal reporting and variance analysis versus plan and prior year;
- preparing Oncor's monthly financial performance reports for its investors;
- reviewing and preparing quarterly board presentations;
- reviewing Oncor's external financial reports;
- monitoring the progress of Oncor's financial performance versus the plan and latest forecast and, in collaboration with other financial planning departments, providing recommended impacts for use in future forecasts; and
- supporting accounting with the reviewing of journal entries and analysis of the general ledger.

Q. PLEASE DESCRIBE YOUR EDUCATIONAL BACKGROUND AND PROFESSIONAL EXPERIENCE.

A. I received a Bachelor's degree in Business Administration, with a focus in Accounting, from the University of Oklahoma in 2002. I have worked for Oncor since 2018 in financial planning and financial management positions. Previously, I worked at Sharyland Utilities, LP ("Sharyland") from 2011 through 2018 in a variety of accounting positions. Before that, I worked in other corporate accounting positions between my college graduation and my positions with Sharyland.

Q. HAVE YOU PREVIOUSLY TESTIFIED BEFORE ANY REGULATORY AUTHORITIES?

A. No.

## II. PURPOSE OF DIRECT TESTIMONY

Q. PLEASE PROVIDE AN OVERVIEW OF YOUR DIRECT TESTIMONY.

A. My direct testimony supports the Company's rate base inclusion and functionalization of a reasonable working capital allowance, consisting of an allowance for cash working capital ("CWC"), inventories of materials and supplies, and prepaid operating expenses. I also discuss customer deposits. In addition, I describe and support Oncor's self-insurance reserve accounting, including the treatment and functional assignment of the unrecovered reserve balance and the appropriate level and period of recovery for amortization of that balance.

Q. WHICH RATE FILING PACKAGE ("RFP") SCHEDULES ARE YOU SPONSORING IN THIS PROCEEDING?

A. I sponsor RFP Schedules II-B-8 through II-B-10 and co-sponsor Schedule II-B-11.

Q. WERE YOUR TESTIMONY, EXHIBITS, RFP SCHEDULES YOU SPONSOR, AND ASSOCIATED WORKPAPERS PREPARED BY YOU OR UNDER YOUR DIRECT SUPERVISION?

A. Yes. My testimony, exhibits, RFP schedules that I sponsor or co-sponsor, and associated workpapers were prepared by me or under my direction, supervision, or control and are true and correct.

## III. WORKING CAPITAL ELEMENTS

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

A. Pursuant to 16 Texas Administrative Code ("TAC") § 25.231(c)(2)(B), utilities are permitted to include, within their invested capital (rate base) balances, an allowance for CWC, reasonable inventories of materials and supplies ("M&S"), and prepaid operating expenses. A copy of 16 TAC § 25.231 is attached as Exhibit AT-1 to my direct testimony. The Company's request for a reasonable working capital allowance of approximately $193.7 million, as shown on line 30 of page 3 of Oncor's RFP Schedule II-B-10, is comprised of approximately $115.2 million of prepaid operating costs, approximately $152.0 million in M&S inventories, and approximately a negative $73.5 million allowance of CWC. I have provided these amounts to Company witness Mr. W. Alan Ledbetter, who has included them in the overall summary of rate base at December 31, 2021, as presented in Schedule II-B (Summary of Rate Base) of Oncor's RFP.

Q. WHY IS IT IMPORTANT FOR ONCOR TO RECOVER WORKING CAPITAL COMPONENTS IN ITS RATES?

A. A reasonable working capital allowance allows Oncor rate recovery of items that are essential to utility activities. For example, adequate levels of materials and supplies must be on-hand in order to allow utility personnel to perform their jobs. Similarly, cash working capital allowance ensures the utility has the liquidity necessary to fund day-to-day operating activities in a reasonable manner. These and related items are expressly allowed in rate base under Commission Rule § 25.231(c)(2)(B), and the Commission should provide for rate recovery of these reasonable items as requested in the Company's RFP.

## A. <u>Cash Working Capital</u>

Q. PLEASE EXPLAIN THE RATE BASE ITEM IDENTIFIED AS CWC.

A. Typically, the term "net working capital" reflects a measure of business liquidity, measured as the difference between the recorded amounts of a company's current assets and current liabilities. As such, the measurement of a company's working capital normally reflects a point-in-time computation (*e.g.*, balance sheet date). In general, sources of working capital include investors, customers, vendors, governmental agencies, and employees. Investor-provided working capital increases a utility's rate base, while customer-, vendor-, governmental-, and employee-supplied working capital components typically serve to reduce the utility's rate base.

For a regulated utility, CWC represents the component of working capital that is not specifically addressed in other rate base items (*e.g.*, prepayments and M&S inventories). As provided for in 16 TAC § 25.231(c)(2)(B)(i)-(ii), various working capital elements, such as inventories and prepayments, are included separately in a utility's rate base. Conversely, as described in 16 TAC § 25.231(c)(2)(C), customer-supplied capital (*e.g.*, customer deposits) and governmental-supplied capital (*e.g.*, deferred federal income taxes) are deducted from rate base. The remainder of the net working capital necessary to provide funds to span the time between the incurrence of costs to provide service delivery and the receipt of compensation for the service delivery constitutes CWC.

The CWC study (also known as a lead-lag study) quantifies the days associated with the period between the midpoint of the service period associated with goods and services and the payment date for those same goods and services. The CWC study also quantifies the lag days associated with the delay in the receipt of funds for electric delivery service already provided. The measurement of these leads and lags is expressed in days for various categories of expenses and revenues. The lag for revenue collection is netted against the various expense leads or lags, and the resulting "net" lead or lag is multiplied by *pro forma* daily revenue requirements, after removing the amortization of prepaid expenses included separately in rate base.

Q. WHAT METHOD DID THE COMPANY EMPLOY IN DETERMINING ITS NET CWC REQUIREMENTS?

A. As prescribed by the Commission, the Company conducted a cash-method lead-lag study to determine its net CWC requirements. Specifically, 16 TAC § 25.231(c)(2)(B)(iii)(IV) (please see Exhibit AT-1) requires Oncor to conduct such a lead-lag study to calculate a reasonable allowance of CWC to be included in its rate base. In determining its net CWC requirements, Oncor takes guidance from this rule, pertinent Commission precedent, and other relevant sources for conducting the lead-lag study. The prescribed cash method focuses the study only on actual cash receipts and disbursements, thereby eliminating costs related to current non-cash items, such as depreciation, amortization, or prepayments.

For the calculation of billing process lag days and certain expense lead-lag days, the study utilizes a sampling methodology to provide an analysis of costs affecting the Company's CWC requirements during the 12-month period ended September 30, 2021. In this way, an unbiased and reasonable estimation can be made of the related lead days, without incurring an analysis that is so time-consuming that the cost to prepare it would exceed its attendant benefits.

Q. WHY DOES ONCOR'S LEAD-LAG STUDY USE THE 12-MONTH PERIOD ENDED SEPTEMBER 30, 2021?

A. The Commission's instructions for Transmission & Distribution (TDU) Investor-Owned Utilities Rate Filing Package for Cost-of-Service Determination ("RFP Instructions") relating to Schedule II-B-9 states that "[i]f a new lead-lag study is provided, it may end the quarter prior to the Test Year end or the most recent calendar year." To facilitate timely completion of the lead-lag study, the Company conducted a lead-lag study based on the 12-month period ended September 30, 2021, the quarter-end date immediately preceding the test year-end date of December 31, 2021. Although this 12-month period was used for purposes of determining the average number of revenue lag or expense lead days, the resultant lead-lag factors have been applied to the operating costs, as adjusted, arising from the test year period ended December 31, 2021, in order to determine the Company's appropriate CWC requirement.

Q. WHAT IS MEANT BY THE TERM "SAMPLING METHODOLOGY"?

A. Under 16 TAC § 25.231(c)(2)(B)(iii)(IV)(-b-), any "reasonable sampling method that is shown to be unbiased may be used in performing the lead-lag study." While specific lead or lag time spans can be calculated for most elements of CWC, the Company employs statistical sampling techniques to develop an unbiased analysis of the lead days for outside vendor expenses. For these costs, the Company's Internal Audit group selects a stratified, random sample of 242 transactions (including 10 corporate-related transactions), which provides a statistically valid representation (based on a 95% confidence level) of the approximately 136,000 third-party vendor transactions recorded during the lead-lag study period. For other areas of the study (*e.g.*, ad valorem taxes and local gross receipts taxes), the Company examines the top 25 payments (by dollar amount) during the test year, which results in a representative analysis comprising the majority of the payment dollars for each of these categories.

Q. HAVE YOU DETAILED THE METHODOLOGIES AND CALCULATIONS FOR THE OTHER COMPONENTS OF THE LEAD-LAG STUDY?

A. Yes. Exhibit AT-2 to my direct testimony discusses the methodologies and calculations used to quantify the expense lead-lag days and the revenue lag days and describes the study's compliance with the Commission's Substantive Rules and relevant precedents. In addition, various adjusting items, such as average daily bank balances and miscellaneous deferred debits, are addressed in the exhibit. Exhibit AT-3 to my direct testimony provides the results of the lead-lag study. The complete lead-lag study and the supporting documentation can be found in the workpapers supporting Schedule II-B-9.

Q. WHAT ARE THE RESULTS OF THIS LEAD-LAG STUDY?

A. Applying the results of the lead-lag study to the components of Oncor's revenue requirement produces a CWC requirement for Oncor of negative $73,484,424, as shown on page 1 of my Exhibit AT-3. I have provided this CWC amount to Company witness Mr. Ledbetter for inclusion in his determination of the total invested capital for Oncor.

Q. ARE THE RESULTS OF THE LEAD-LAG STUDY REASONABLE?

A. Yes. The CWC requirement for Oncor is calculated using a lead-lag study that is consistent with 16 TAC § 25.231 and relevant precedent, including Oncor's prior rate cases. The results reflect an accurate, unbiased, and rational calculation for determining the reasonable level of CWC to include in the rate base of Oncor.

## B. Materials and Supplies

Q. PLEASE DESCRIBE THE RATE BASE ITEM IDENTIFIED AS M&S.

A. As taken directly from the Company's consolidated books and records and as disclosed in the consolidated balance sheets of Oncor's U.S. Securities and Exchange Commission Form 10-K Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the Fiscal Year Ended December 31, 2021 ("2021 Form 10-K"), the Company had a reported balance of approximately $171 million in M&S inventories – at average cost – at the end of the test year. This balance reflects the cost of materials purchased for use in utility construction activities and for operation and maintenance purposes, as well as undistributed stores expense, which reflect 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.

Schedule II-B-8 (Rate Base Accounts – Materials and Supplies) reflects the month-end book balances of M&S for each month of the test year and the month immediately preceding the test year (*i.e.*, December 2020). Also shown on Schedule II-B-8 is the 13-month adjusted average balance of M&S totaling $152,038,741 that reflects the reasonable balance of inventories existing during the test year. The adjusted 13-month balance includes a known and measurable change related to certain December 2021 inventory items that were erroneously miscoded and therefore mistakenly booked into two separate inventory accounts simultaneously. The known and measurable change therefore removes those duplicate entries. I have provided this amount to Company witness Mr. Ledbetter for inclusion in the calculation of the Company's overall balance of invested capital (rate base) at the end of the 2021 test year period.

Q. HOW HAS ONCOR FUNCTIONALIZED THE BALANCE IN M&S THAT IS INCLUDED IN ITS RATE BASE?

A. Oncor maintains service centers and storerooms that each contain M&S focused solely on one function—transmission, distribution, or metering. Therefore, Oncor directly assigns the M&S in each facility to the relevant function.

## C. Prepayments

Q. PLEASE DESCRIBE THE RATE BASE ITEM IDENTIFIED AS PREPAYMENTS.

A. At the end of the test year, Oncor's accounting records reflected approximately $109.7 million in prepaid costs. As detailed on Schedule II-B-10, prepayments reflect amounts that have been paid for and recorded as assets before they are used or consumed. In essence, prepayments are amounts required to be paid to municipalities, vendors, industry associations, or other suppliers of goods and services during one accounting period, but for which the underlying asset is not fully consumed until a future accounting period. Thus, the prepayment is expensed to an appropriate operation, maintenance, tax, or other expense account on a systematic basis (*e.g.*, straight-line) over the term covered by the initial payment. In general, prepayments are recorded in Federal Energy Regulatory Commission ("FERC") Account 165 and represent short-term transaction lives (12 months or less). Regardless, at the end of the 2021 test year, approximately 10% of Oncor's prepayment balance reflected longer term prepayment arrangements, primarily related to information technology services.

Given materiality thresholds, there are numerous prepaid costs that the Company expenses immediately upon payment if the materiality threshold is met for the relevant payment type. (For example, it is Oncor's standard practice to record a prepayment asset for insurance premiums greater than $24,000.) Prepaid costs less than applicable threshold amounts (*e.g.*, annual periodical subscriptions, individual accountant and engineer professional licensing fees, minor software licenses, etc.) are expensed when the payment is processed. The cost of invested capital necessary to finance these transactions is considered in the calculation of CWC discussed earlier in my testimony.

Q. PLEASE IDENTIFY THE COSTS THAT ARE TREATED AS PREPAYMENTS IN THE COMPANY'S RFP.

A. Subject to the threshold levels previously described, Oncor prepays its costs of external insurance premiums, certain municipal franchise fees (also called local gross receipts taxes), industry membership dues, vendor fees, software licensing costs, and various maintenance agreements.

Q. HOW HAS ONCOR FUNCTIONALIZED THE PREPAYMENT COSTS THAT ARE INCLUDED IN ITS RATE BASE?

A. Similar to M&S inventories, the Company first captured the month-end balance of prepayments for each month of the test year and, together with the month immediately preceding the test year, then calculated the 13-month average balance of prepayments. As detailed on Schedule II-B-10, the cost of each asset group was directly assigned to a function when possible. For prepayment amounts that could not be directly assigned, the most appropriate functionalization factor (see Schedule II-F) as prescribed for use by the Commission's RFP Instructions was used to spread the costs between Oncor's functional groups.

### 1. Prepaid Insurance

The 13-month average balance of prepaid premiums for external insurance has been directly assigned to Oncor's functional groups on the same basis as the underlying insurance coverage. In general, prepaid property, liability, and cyber insurance premiums are functionalized on the basis of the underlying policy, while workers' compensation insurance coverage is functionalized on the basis of payroll costs. The 13-month-end balances of the functionalized cost of prepaid insurance may be found in my workpaper WP/II-B-10.

### 2. Prepaid Membership Dues

The 13-month average balance of membership dues paid to certain electric industry associations has been functionalized using the payroll factors identified in Schedule II-F pursuant to General Instruction 11.c of the Commission's RFP Instructions. The 13-month-end balances of the functionalized cost of prepaid membership dues may be found in my workpaper WP/II-B-10.

### 3. Prepaid Municipal Franchise Fees

Municipal franchise fees are paid to various cities and towns for use of public rights-of-way. The fees are calculated on a cents per kilowatt-hours ("kWh") basis for all retail kWh deliveries within each municipality served by Oncor. These fees reflect retail service and have been directly assigned 100% to the distribution function. The 13-month-end balances of the functionalized cost of prepaid municipal franchise fees may be found in my workpaper WP/II-B-10.

#### 4. Prepaid Software License and Maintenance Agreements

Oncor also prepays various costs related to software license and maintenance agreements related to certain operating systems employed by the Company to provide electric service. In general, the balances of these prepaid software license and maintenance agreements can be directly assigned to the transmission, distribution, metering, or transmission and distribution utility customer service ("TDCS") functions based on the functional use of each system corresponding to the prepayment. The 13-month-end balances of the functionalized cost of prepaid software license and maintenance agreements may be found in my workpaper WP/II-B-10.

Q. HAVE YOU MADE ANY ADJUSTMENTS TO ACTUAL TEST YEAR COSTS WITH RESPECT TO THE COMPANY'S REQUESTED BALANCE OF PREPAYMENTS?

A. Yes. The 13-month average balance of prepayments during the 2021 test year, after removing non-recoverable costs, is shown in my workpaper WP/II-B-10. Oncor's 13-month average balance of prepayments, as adjusted, totals $115,153,396. I have provided this balance to Oncor witness Mr. Ledbetter for inclusion in the Company's overall determination of invested capital (rate base).

## IV. CUSTOMER DEPOSITS

Q. PLEASE DESCRIBE THE RATE BASE ITEM IDENTIFIED AS CUSTOMER DEPOSITS.

A. Certain third-party entities have provided funds to protect the Company's ratepayers from the failure of such third-parties to remit payment for contractual obligations primarily relating to joint use pole contact arrangements and requested plant construction activities. At the end of the test year, Oncor's balance sheet reflects approximately $43.0 million of customer deposits. However, approximately $42.9 million of this $43.0 million total relates to fully-refundable customer advances for construction activities that are primarily short-lived, and these deposited amounts are not contributions in aid of construction. All of these remaining customer cash deposits related to construction activities, moreover, have been placed in a restricted cash account and, therefore, excluded from Oncor's operating cash. Once the terms of the agreement have been met for the construction activity, the deposit with interest is returned to the customer. Interest for customer deposits are accrued at rates set by the Commission. Accordingly, these customer cash deposits relating to construction activities are effectively set aside in escrow rather than being available as a source of satisfying Oncor's working capital needs. For these reasons, Oncor applied a known and measurable change to its test year-end customer deposit amount to remove these construction-related, refundable customer deposits. The remaining $162,100 balance of customer deposits has been reflected as a reduction to Oncor's required working capital total. These remaining customer deposits have been directly assigned to the distribution function. I have summarized the total balance of these customer deposit amounts in line 7 of Schedule II-B-11 and have provided that amount to Oncor witness Mr. Ledbetter for inclusion (as a reduction) in the overall determination of the Company's total of invested capital (rate base).

## V. SELF-INSURANCE RESERVE ACCOUNTING

### A. Inclusion of Self-Insurance Reserve in Rate Base

Q. PLEASE DESCRIBE ONCOR'S SELF-INSURANCE PLAN AND THE SELF-INSURANCE RESERVE ACCOUNT.

A. Consistent with Public Utility Regulatory Act ("PURA") § 36.064 and 16 TAC § 25.231(b)(1)(G), Oncor has established a plan to self-insure part of the utility's potential liability and catastrophic property losses, including but not limited to wind, storm, fire, and explosion losses, that could not have been reasonably anticipated and included under operating and maintenance expenses. Oncor's self-insurance plan is designed to provide a reserve account for coverage for property and liability losses of $500,000 or more for which external commercial insurance, if even available, represents a higher cost alternative.

The Commission has consistently found Oncor's self-insurance plan to be in the public interest because ratepayers receive the benefits from this lower cost alternative. Accordingly, the Commission has previously allowed for inclusion in rates the annual accruals to the self-insurance reserve and has granted recovery of existing self-insurance reserve deficit balances in the determination of Oncor's revenue requirement.

In Oncor's last base rate case, Docket No. 46957, the Commission approved a settlement that authorized recovery of $75 million annually to provide self-insurance coverage for current losses, as well as approximately $42.64 million annually to recover the then-existing self-insurance reserve deficit balance of $426,420,946 over a 10-year amortization period that began on November 27, 2017. Despite these rate allowances, the Company's self-insurance reserve balance remains in a significant deficit position; at the end of the 2021 test year, this deficit totaled approximately $588.55 million (including approximately $223.29 million of the remaining unamortized reserve deficit balance existing at the end of the test year in Docket No. 46957).

Please refer to the direct testimony of Company witness Mr. Gregory S. Wilson for further details on Oncor's self-insurance plan and reserve.

Q. IS ONCOR REQUESTING THAT THE DEFICIT BALANCE IN THE SELF-INSURANCE RESERVE BE INCLUDED AS A COMPONENT OF RATE BASE?

A. Yes. As provided for in PURA § 36.064(d)(2) and 16 TAC § 25.231(c)(2)(E), if a self-insurance plan is approved by the Commission, any shortages to the reserve account will be an increase to rate base, and any surpluses will be a decrease to rate base. Oncor's self-insurance reserve account has been in a shortage (*i.e.*, net deficit) position since before the deregulation of the Texas electric utility industry became effective in January 2002. The