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DOCKET NO. 56963

APPLICATION OF ONCOR ELECTRIC	§	PUBLIC UTILITY COMMISSION
DELIVERY COMPANY LLC TO	§	
AMEND ITS DISTRIBUTION COST	§	OF TEXAS
RECOVERY FACTOR	§	

COMMISSION STAFF’S RECOMMENDATION ON FINAL DISPOSITION

I. INTRODUCTION

On August 16, 2024, Oncor Electric Delivery Company LLC (Oncor) filed an application to amend its distribution cost recovery factor (DCRF). Oncor requests an update to its current DCRF and wholesale distribution cost recovery factor riders to include additional distribution invested capital placed in service during the period from January 1, 2022, through June 30, 2024. Oncor represents that this is its eighth DCRF filing and its fourth DCRF filing since its most recent comprehensive base-rate proceeding in Docket No. 53601.¹

On August 19, 2024, the administrative law judge (ALJ) filed Order No. 1, directing the Staff (Staff) of the Public Utility Commission of Texas (Commission) to file a recommendation on final disposition by September 16, 2024. Therefore, this pleading is timely filed.

II. RECOMMENDATION ON FINAL DISPOSITION

Staff has reviewed Oncor’s application and, as supported by the attached memoranda of Joseph Cooper of the Infrastructure Division and Mark Filarowicz and Dylan Love of the Rate Regulation Division, recommends that it be approved. Staff also recommends that Oncor be required to file a “clean” record copy of its DCRF tariffs consistent with the Commission’s final order in this docket. This revised tariff should be stamped “Approved” by the Commission Central Records Division and retained for future reference.

III. CONCLUSION

Staff respectfully requests the entry of an order consistent with this recommendation.

¹ *Application of Oncor Electric Delivery Company LLC for Authority to Change Rates*, Docket No. 53601, Order on Rehearing (June 30, 2023).

Dated: September 16, 2024

Respectfully submitted,

**PUBLIC UTILITY COMMISSION OF TEXAS
LEGAL DIVISION**

Marisa Lopez Wagley
Division Director

/s/ Glen Imes
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CERTIFICATE OF SERVICE

I certify that, unless otherwise ordered by the presiding officer, notice of the filing of this document will be provided to all parties of record via electronic mail on September 16, 2024, in accordance with the Second Order Suspending Rules, filed in Project No. 50664.

/s/ Glen Imes
Glen Imes

Public Utility Commission of Texas

Memorandum

TO: Glen Imes, Attorney
Legal Division

FROM: Joseph Cooper, Engineering Specialist
Infrastructure Division

DATE: September 16, 2024

RE: **Docket No. 56963** – *Application of Oncor Electric Delivery Company LLC to Amend Its Distribution Cost Recovery Factor*

On August 16, 2024, Oncor Electric Delivery Company LLC (Oncor) filed for an approval to amend its Distribution Cost Recovery Factor (DCRF) under the Public Utility Regulatory Act, Tex. Util. Code Ann. (PURA) § 36.210 and 16 Texas Administrative Code (TAC) § 25.243. PURA § 36.210(i) requires the Commission to enter a final order for a DCRF update within 60 days after the application is filed (with a possible extension of no more than 15 days for good cause).

Staff recommends that the total depreciation expense of \$659,510,199¹ and the total accumulated depreciation of \$6,922,776,225² are reasonable. Commission Staff's review of depreciation is only a conditional review and is not the final determination of its appropriateness. As 16 TAC § 25.243(f) states, the Commission shall reconcile investments recovered through a DCRF proceeding at the utility's next comprehensive base-rate proceeding.

¹ Application, Schedule E-1 (August 16, 2024).

² *Id.*, Schedule B-5.

Therefore, I recommend that the Commission approve Oncor's request, with the final determination of the recoverable amounts of these distribution accounts to be made at Oncor's next comprehensive base-rate proceeding.

Public Utility Commission of Texas

Memorandum

TO: Glen Imes, Attorney
Legal Division

FROM: Mark Filarowicz, Senior Financial and Accounting Analyst
Rate Regulation Division

DATE: September 16, 2024

SUBJECT: Docket No. 56963 – *Application of Oncor Electric Delivery Company LLC to Amend Its Distribution Cost Recovery Factor*

SUMMARY AND RECOMMENDATION

On August 16, 2024, Oncor Electric Delivery Company LLC (Oncor) filed its application to amend its Distribution Cost Recovery Factor (DCRF) in Docket No. 56963 (Application). Public Utility Regulatory Act, Texas Utilities Code Annotated (PURA) § 36.210(i) requires the Commission to enter a final order for a DCRF update within 60 days after the application is filed (with a possible extension of no more than 15 days for good cause).

On August 19, 2024, the administrative law judge filed Order No. 1, requiring Staff of the Public Utility Commission of Texas (Staff) to file a final recommendation regarding Oncor's Application on or before September 16, 2024. This memorandum presents Staff's accounting and financial recommendation regarding Oncor's requested change to its DCRF in its Application. Based on my review of the financial and accounting aspects of the DCRF request in Oncor's Application and the applicable statute and rule, I recommend that the Commission approve Oncor's request to amend its DCRF, with the underlying distribution accounts and accounting treatments subject to reconciliation at Oncor's next comprehensive base-rate proceeding.

In its Application, Oncor seeks an increase of \$3,176,811,471 (\$2,471,337,965 from previous DCRF proceedings, most recently Docket No. 56306,¹ plus an additional \$705,473,506) to total distribution rate base and an increase of \$408,745,142 (\$321,841,224 + \$86,903,918) to total distribution revenue requirement over the baseline amounts approved in Docket No. 53601,² Oncor's most recent comprehensive base-rate proceeding.³ Oncor incorporated its net addition of facilities in the amount of \$3,176,811,471 into its cost of service and applied to the increase in

¹ *Application of Oncor Electric Delivery Company LLC for Authority to Amend Its Distribution Cost Recovery Factor and Update Mobile Generation Riders*, Docket No. 56306, Interim Order (May 16, 2024).

² *Application of Oncor Electric Delivery Company LLC for Authority to Change Rates*, Docket No. 53601, Order on Rehearing (Jun. 30, 2023).

³ Application at Schedule A (Bates page 148) and Schedule B (Bates page 149) (Aug. 16, 2024).

distribution rate base its rate of return of 6.65% as authorized in Docket No. 53601.⁴ Oncor requests an increase of \$44,089,223 (\$34,130,496 + \$9,958,727) to annual *ad valorem* tax expense over the baseline amount from Docket No. 53601, based on incremental invested capital and calculated using an effective rate of 1.3471763% using information from Docket No. 53601.⁵ Using the seventy-percent-of-revenues methodology as it did in Docket No. 53601, Oncor requests an increase of \$2,414,156 (\$1,957,910 + \$456,246) to annual Texas margin tax expense over the amount in Docket No. 53601.⁶ Finally, Oncor seeks an increase of \$34,834,341 (\$27,098,690 + \$7,735,651) to federal income tax, calculated using a Tax Method One methodology on the incremental DCRF investment and return on rate base since Docket No. 53601.⁷

Oncor's Application reflects a new total interim distribution revenue requirement of \$4,589,497,635, specifically composed of the following items:⁸

Interim DCRF	Oncor's Proposed Increase Over Docket No. 53601	Interim Distribution Revenue Requirement
Operations and Maintenance	-	2,538,516,451
Depreciation and Amort. Exp.	116,149,459	659,510,199
Taxes Other Than Income	46,503,379	505,458,175
Federal Income Taxes	34,834,341	103,518,198
Return on Rate Base	211,257,963	852,572,696
Other Revenues	-	(70,078,084)
Total Distribution Revenue Requirement	\$408,745,142	\$4,589,497,635

The provisions of PURA § 36.210(f)(6)(A) and (B) allow for the Commission to review costs recovered through a DCRF in the utility's next comprehensive base-rate proceeding and allow the Commission to refund to customers any amounts, including carrying costs, deemed to have been recovered improperly through the DCRF. The standards of 16 Texas Administrative Code (TAC) § 25.243(f) similarly provide that the Commission shall reconcile investments recovered through a DCRF proceeding in the utility's next comprehensive base-rate proceeding. Given the provisions of PURA § 36.210(f)(6)(A) and (B) and 16 TAC § 25.243(f), my review of certain accounting and financial aspects of Oncor's Application is only a conditional review and not the final determination as to the appropriateness of the costs and accounting treatments associated with new distribution facilities and the resulting distribution revenue requirement.

⁴ Application at Schedule B (Bates page 149) and *Application of Oncor Electric Delivery Company LLC for Authority to Change Rates*, Docket No. 53601, Order on Rehearing at Finding of Fact No. 190.

⁵ Application at Schedule E-2 (Bates page 155) and WP/Schedule E-2/1 (Bates page 1465).

⁶ *Id.* at Schedule E-2 (Bates page 155) and WP/Schedule E-2/2 (Bates page 1466).

⁷ *Id.* at Schedule E-3 (Bates page 156) and WP/Schedule E-3 (Bates page 1467).

⁸ *Id.* at Schedule A (Bates page 148).

Based on my review of certain accounting and financial aspects of Oncor's Application as explained in this memorandum, I recommend that the Commission approve Oncor's request, with the final determination of the recoverable amounts of these distribution accounts to be made at Oncor's next comprehensive base-rate proceeding.

Public Utility Commission of Texas

Memorandum

TO: Glen Imes, Legal Division
FROM: Dylan Love, Rate Regulation Division
DATE: September 16, 2024
RE: **Docket No. 56963** – *Application of Oncor Electric Delivery Company for Approval to Amend its Distribution Cost Recovery Factor*

On August 16, 2024, Oncor Electric Company LLC (Oncor) filed an application to amend its Distribution Cost Recovery Factor (DCRF) pursuant to the Public Utility Regulatory Act (PURA), Texas Utility Code Ann. § 36.210 and 16 Texas Administrative Code (TAC) § 25.243. PURA § 36.210(i) requires the Commission to enter a final order for a DCRF update within 60 days after the application is filed (with a possible extension of no more than 15 days for good cause).

This memorandum presents Staff's recommendation regarding cost allocation and rate design in Oncor's application. PURA § 36.210(f)(6)(A) and (B) allow for the Commission to review costs recovered through a DCRF in the utility's next comprehensive base-rate proceeding and allow the Commission to refund to customers any amounts, including carrying costs, deemed to have been recovered improperly through the DCRF. 16 TAC § 25.243(f) similarly provides that the Commission shall reconcile investments recovered through a DCRF proceeding at the utility's next base-rate proceeding. Given the provisions of PURA § 36.210(f)(6)(A) and (B) and 16 TAC § 25.243(f), my review of Oncor's application is only conditional, and not the final determination as to the appropriateness of Oncor's DCRF request.

Based on my review of Oncor's application and the applicable statutes and rules, I recommend that the Commission approve Oncor's request to amend its DCRF, subject to reconciliation in Oncor's next base-rate proceeding. I also recommend that Oncor be required to file a "clean" copy of its DCRF tariffs, consistent with the Commission's final order in this docket, to be stamped "Approved" by the Commission's Central Records Division and retained for future reference.