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**REBUTTAL TESTIMONY
OF W. ALAN LEDBETTER, WITNESS FOR
ONCOR ELECTRIC DELIVERY COMPANY LLC**

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1 **REBUTTAL TESTIMONY OF W. ALAN LEDBETTER**

2 **I. BACKGROUND AND PURPOSE**

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

5 A. My name is W. Alan Ledbetter. My business address is 1616 Woodall
6 Rodgers Freeway, Dallas, Texas 75202. I am Vice President and Controller
7 of Oncor Electric Delivery Company LLC ("Oncor" or "the Company").

8 Q. ARE YOU THE SAME W. ALAN LEDBETTER WHO PREVIOUSLY
9 SUBMITTED DIRECT TESTIMONY IN THIS DOCKET?

10 A. Yes, I am. My direct testimony is included in Oncor's Application¹ and
11 Distribution Cost Recovery Factor ("DCRF") Rate Filing Package ("DCRF-
12 RFP") at Bates pages 52-76.

13 Q. WHAT IS THE PURPOSE OF YOUR REBUTTAL TESTIMONY?

14 A. My rebuttal testimony addresses recommendations and issues raised in the
15 direct testimony of Mr. Karl J. Nalepa with ReSolved Energy Consulting,
16 LLC, presented on behalf of the Steering Committee of Cities Served by
17 Oncor ("OCSC"). Specifically, I address Mr. Nalepa's recommendations to
18 exclude from Oncor's DCRF certain portions of Oncor's in service investment
19 in metering equipment, distribution transformers, and capacitors that are
20 held in reserve. In addition, I will speak to Mr. Nalepa's erroneous
21 suggestion that Oncor could still ultimately be made whole for such excluded
22 investment in a future base-rate case even with the adoption of his
23 recommendations.

24 My rebuttal testimony was prepared by me or under my direction,
25 supervision or control, and is true and correct.
26

¹ *Application of Oncor Electric Delivery Company LLC for Approval to Amend its Distribution Cost Recovery Factor*, Docket No. 56963 (filed Aug. 16, 2024).

1 **II. REBUTTAL OF OCSC WITNESS NALEPA**

2 A. OCSC Recommendation Summary

3 Q. PLEASE SUMMARIZE THE DIRECT TESTIMONY PURPOSE AND
4 RECOMMENDATION OF OCSC WITNESS MR. NALEPA REGARDING
5 ONCOR'S DCRF UPDATE APPLICATION.

6 A. As summarized on page 4 of his direct testimony, Mr. Nalepa indicates the
7 purpose of his testimony in this proceeding "is to evaluate whether the costs
8 proposed for inclusion in the DCRF and the resulting DCRF rates are
9 consistent with the requirements of the DCRF rule."² Mr. Nalepa's direct
10 testimony in this proceeding recommends that Oncor's distribution invested
11 capital as of June 30, 2024 "be reduced by \$4,830,240 related to meters,
12 \$80,521,065 related to transformers, and \$4,192,360 related to capacitors
13 pending a further review in Oncor's next base rate proceeding."³ Relying on
14 simple historical averages, rather than any empirical analysis or study, Mr.
15 Nalepa asserts "that Oncor maintains meter, transformer and capacitor
16 reserves in excess of the amounts required to provide adequate service."⁴

17 Q. DO YOU AGREE WITH MR. NALEPA'S RECOMMENDATION TO
18 EXCLUDE THIS SIZABLE PORTION OF ONCOR'S METER,
19 TRANSFORMER, AND CAPACITOR RESERVES FROM THIS DCRF
20 UPDATE?

21 A. No. First, Oncor witness Mr. Coler D. Snelleman's direct and rebuttal
22 testimony in this proceeding explain that Oncor maintains appropriate asset
23 reserve levels and address the reasonableness of the investment in such
24 assets held in reserve as of June 30, 2024. Next, Mr. Nalepa accurately
25 asserts that the "issues of whether distribution invested capital included in

² Direct Testimony and Exhibits of Karl J. Nalepa at 4 (referred to herein using the convention "K. Nalepa Dir. at ____").

³ K. Nalepa Dir. at 4.

⁴ K. Nalepa Dir. at 4.

1 an application for a DCRF adjustment is prudent, reasonable, and necessary
2 is not addressed in a DCRF proceeding unless the presiding officer finds that
3 good cause exists to address these issues.”⁵ Then, disregarding his own
4 recital of 16 Tex. Admin. Code (“TAC”) § 25.243(e)(5), which dictates no
5 such prudence requirement without good cause, he recommends a
6 disallowance of distribution invested capital from the DCRF update because
7 “Oncor has not demonstrated ... a reliability benefit”⁶ from its present reserve
8 levels of metering devices, distribution transformers, and capacitors.

9 Q. DO YOU HAVE ADDITIONAL OBSERVATIONS REGARDING MR.
10 NALEPA’S RECOMMENDATION IN THIS PROCEEDING?

11 A. Yes. Not only does Mr. Nalepa ignore his own admission that the issue of
12 whether Oncor’s reserve balances of metering devices, distribution
13 transformers, and capacitors are prudent is outside the normal scope of a
14 DCRF update, he also disregards the Commission’s previous findings on the
15 matter. In Oncor’s most recent comprehensive base-rate proceeding, the
16 Commission ruled that “[i]nterim transmission cost of service and distribution
17 cost recovery factor proceedings are both interim updates that reserve
18 reasonableness and prudence determinations for plant investments until the
19 next base-rate proceeding.”⁷ In addition, in each of Oncor’s three most
20 recent previous DCRF update filings following the Company’s last
21 comprehensive base-rate proceeding, the Commission ordered that it “is not
22 determining in this Order whether investments recovered through the DCRF
23 comply with PURA or are prudent, reasonable, and necessary. The
24 Commission will make those determinations in Oncor’s DCRF reconciliation

⁵ K. Nalepa Dir. at 9.

⁶ K. Nalepa Dir. at 9.

⁷ *Application of Oncor Electric Delivery Company LLC for Authority to change Rates*, Docket No. 53601, Order on Rehearing (Jun. 30, 2023), Finding of Fact 367.

1 under 16 TAC § 25.243(f).⁸ Mr. Nalepa's recommendations, which would
2 prevent Oncor from earning a return on \$89.5 million of its distribution
3 invested capital, as well as the current capital-related operating expenses,
4 during this interim period between the time of investment and the ultimate
5 reconciliation in the Company's "next comprehensive base-rate proceeding,"
6 is contrary to the Commission's orders and would further exacerbate the
7 effects of regulatory lag on the recovery of costs related to the Company's
8 investments.

9 Q. DO YOU AGREE WITH MR. NALEPA'S SUGGESTION THAT ONCOR
10 WILL BE "MADE WHOLE FOR ITS INVESTMENT"⁹ IF PORTIONS OF ITS
11 INVESTMENT IN RESERVES ARE EXCLUDED FROM RATES UNTIL THE
12 COSTS HAVE BEEN RECONCILED IN A FUTURE BASE-RATE CASE?

13 A. No. Investments in electric plant in service recorded pursuant to the Federal
14 Energy Regulatory Commission ("FERC") Uniform System of Accounts
15 ("USOA") are subject to depreciation charges when placed into service,
16 regardless of whether the assets are "held in reserve". Similarly, the debt
17 and equity capital necessary to fund such investments carry a cost from the
18 time of issuance, regardless of when the rates reflecting the investment
19 become effective. Likewise, invested capital in real and tangible personal
20 property assets, whether or not such investment is currently reflected in
21 either base or interim rates, is subject to ad valorem taxation. Given a fairly
22 linear capital expenditure investment schedule, the average investment in
23 distribution and distribution-related capital subject to update in a DCRF

⁸ *Application of Oncor Electric Delivery Company LLC to Amend its Distribution Cost Recovery Factor and Update Mobile Generation Riders*, Docket No. 55190, Interim Order (Nov. 3, 2023), Ordering Paragraph 9. *Application of Oncor Electric Delivery Company LLC to Amend its Distribution Cost Recovery Factor*, Docket No. 55525, Order (Dec. 14, 2023), Ordering Paragraph 7. *Application of Oncor Electric Delivery Company LLC to Amend its Distribution Cost Recovery Factor and Update Mobile Generation Riders*, Docket No. 56306, Interim Order (May 16, 2024), Ordering Paragraph 9.

⁹ K. Nalepa Dir. at 10.

1 proceeding currently experiences a revenue lag of eight to nine months.
2 Assuming the Commission's 48-month base-rate proceeding scheduling (16
3 TAC § 25.247), Mr. Nalepa's recommendation would add at least two more
4 years (*i.e.*, 48 months / 2) to the financial drag arising from regulatory lag
5 related to distribution and distribution-related invested capital. While I am
6 not an attorney, this type of regulatory lag and the negative impacts on an
7 electric utility's earnings appear to have been the impetus behind the
8 enactment of PURA¹⁰ § 36.210 and the Commission's adoption of 16 TAC §
9 25.243, frequently known as the "DCRF Rule".¹¹ Likewise, the Commission
10 bolstered this interpretation in its Order on Briefing Issue in Docket No.
11 55525 (Dec. 7, 2023), when it ruled that "[p]eriodic rate adjustments are, by
12 nature, expedited procedures intended to reduce regulatory lag. The
13 Legislature's recent addition of PURA § 36.210(i) reinforces the expedited
14 nature of DCRF proceedings. A DCRF proceeding is a rate *adjustment*, not
15 a rate *change*. Therefore, the opportunity for a hearing will occur in the
16 applicant's next base-rate proceeding, not in an applicant's DCRF
17 proceeding" (emphasis in original).

18 Q. DOES THE DCRF RULE SUPPORT MR. NALEPA'S ASSERTION THAT
19 ONCOR WOULD BE "MADE WHOLE FOR ITS INVESTMENT" IF
20 SIGNIFICANT PORTIONS OF THE COMPANY'S DISTRIBUTION
21 INVESTED CAPITAL RESERVE INVESTMENT IS EXCLUDED FROM
22 THIS INTERIM DCRF UPDATE?

23 A. No. 16 TAC § 25.243(f), which deals with a utility's reconciliation of its DCRF
24 rates, only addresses a potential refund of DCRF revenues if the

¹⁰ Public Utility Regulatory Act, Tex. Util. Code §§ 11.001-66.016 ("PURA").

¹¹ See *Rulemaking Related to Periodic Rate Adjustments*, Project No. 39465, Order Adopting New § 25.243 as Approved at the September 15, 2011 Open Meeting at 145-46 (Sept. 22, 2011) (explaining that "the opportunity for a DCRF application ... clearly provides for reduced regulatory lag, which eliminates at least some degree of uncertainty with respect to the timing of an electric utility's recovery of investment. A reduction in regulatory lag during a period when an electric utility is increasing its investments positively impacts the electric utility's financial condition.").

Commission determines that a Company's investments did not comply "with PURA and this section or were not prudent, reasonable, and necessary." Thus, unlike certain recent legislation (e.g., PURA § 38.078(e) relating to utility system resiliency plans), the DCRF Rule does not have any provision for deferral of current investment-related costs as a regulatory asset. Accordingly, despite Mr. Nalepa's frivolous assertion to the contrary, there is no possibility for an electric utility to be "made whole" for its current distribution-related investment costs if they are excluded from a DCRF update. Such is already the case for Oncor's current distribution-related investment costs that are borne by Oncor's investors during the average regulatory lag period of eight to nine months mentioned above.

B. The DCRF Rule

Q. PLEASE SUMMARIZE THE DCRF RULE REFERENCED IN MR. NALEPA'S DIRECT TESTIMONY IN THIS PROCEEDING.

A. As described in his direct testimony, Mr. Nalepa summarizes that the DCRF Rule allows a utility to change its rates "to account for changes in return, depreciation and taxes on the change in net distribution invested capital since its last base-rate proceeding, offset by corresponding load growth revenues."¹² The DCRF Rule defines "Distribution invested capital" ("DIC") in subsection (b)(3) as the parts of an electric utility's invested capital "that are categorized as distribution plant, distribution-related intangible plant, and distribution-related communication equipment and networks properly recorded in Federal Energy Regulatory Commission (FERC) Uniform System of Accounts 303, 352, 353, 360 through 374, 391, and 397." Mr. Nalepa does not dispute that Oncor has appropriately recorded its investment in reserve metering devices, distribution transformers, and capacitors in FERC accounts 368 (Line transformers) and 370 (Meters). (Pursuant to FERC guidance, the distribution capacitors are also recorded

¹² K. Nalepa Dir. at 4-5.

1 in FERC account 368.) Accordingly, investment accurately recorded in the
2 FERC accounts subject to update in DCRF proceeding, including accounts
3 368 and 370, are appropriately reflected in Oncor's balance of DIC.

4 Q. DOES IT MATTER THAT THE INVESTMENT THAT MR. NALEPA
5 RECOMMENDS FOR EXCLUSION IS BEING "HELD IN RESERVE" BY
6 ONCOR?

7 A. No. As addressed in my direct testimony in this proceeding, the FERC
8 Uniform System of Accounts guidance for both accounts 368 (Line
9 transformers) and 370 (Meters) provides that the distribution investment
10 included in these accounts are considered as electric plant in service
11 "whether actually in service or held in reserve."

12 Q. HOW DOES MR. NALEPA DEFEND HIS RECOMMENDED FINANCIAL
13 HARM TO ONCOR THROUGH THE EXCLUSION OF PORTIONS OF
14 ONCOR'S RESERVE METERING EQUIPMENT, DISTRIBUTION
15 TRANSFORMERS, AND CAPACITORS?

16 A. Mr. Nalepa appears to justify any negative impact to Oncor by stating that
17 "[i]t is unfair to ratepayers to bear the cost of meters in reserve that Oncor
18 has not demonstrated provide a reliability benefit,"¹³ but this statement
19 suggests that Mr. Nalepa takes issue with the DCRF Rule's interim cost
20 recovery mechanism itself. Oncor adhered to the DCRF filing package
21 instructions when it included the full extent of the Company's capital
22 investment in metering equipment, distribution transformers, and capacitors
23 and should not be financially penalized by having a portion of this investment
24 excluded from rates set in this case. In short, the DCRF Rule does not
25 require Oncor to demonstrate a reliability benefit in an interim proceeding.
26 While Oncor witness Mr. Snelleman's rebuttal testimony in this proceeding
27 does provide significant explanation for the recent increase in Oncor's held
28 in reserve DIC reflected in this update, it is irrelevant that Mr. Nalepa finds it

¹³ K. Nalepa Dir. at 9.

1 inequitable that the DCRF rate recovery mechanism permits a utility to begin
2 recovering its investment before a prudence finding on that investment has
3 been made.

4 C. Held in Reserve Investment Valuation

5 Q. DO YOU AGREE WITH MR. NALEPA'S VALUATION OF ONCOR'S
6 DISTRIBUTION INVESTED CAPITAL OF HELD IN RESERVE METERING
7 EQUIPMENT, DISTRIBUTION TRANSFORMERS, AND CAPACITORS?

8 A. No. I have made no attempt to determine the actual effect on Oncor's
9 proposed updated DCRF rates that Mr. Nalepa's recommended reduction of
10 distribution invested capital in service would produce. However, there are
11 clear errors in Mr. Nalepa's attempted valuation. First, Mr. Nalepa failed to
12 address the attendant effects of his recommended exclusion of invested
13 capital, which would also require offsetting adjustments to DIC rate base for
14 related deferred income taxes and accumulated depreciation charges on the
15 excluded investment. Regardless, as I have described above, no such
16 valuation is necessary because his recommendation is based on a premise
17 that is contrary to the DCRF Rule and the Commission's rulings in Oncor's
18 three most recent previous DCRF update proceedings.

19 Nonetheless, it is apparent that Mr. Nalepa has significantly
20 overstated his recommended DIC reductions that total approximately \$89.5
21 million. For example, the "\$25,759,887.54 booked to FERC account 370,
22 Meters, during the six months ending June 2024"¹⁴ includes \$3,725,937.75
23 of "Instrument Rated Meter" investment and \$6,974,756.40 of "Meter
24 Related Hardware" (see Oncor Application workpaper WP/Schedule B-
25 1/1/3/6 ME 06302024 at Bates page 1341). As a result, Mr. Nalepa's
26 calculated "average cost per meter" of \$201.26¹⁵ does not provide an
27 accurate unit cost per meter valuation to be applied to the arbitrary unit count

¹⁴ K. Nalepa Dir. at 9.

¹⁵ K. Nalepa Dir. at 9.

1 reduction that Mr. Nalepa recommends. Similarly, Mr. Nalepa's "average
2 cost per transformer" of \$5,877.45¹⁶ is overstated because it does not weight
3 the average price based on transformer size. In essence, the inclusion of a
4 relatively small number of auto-transformer unit purchases (up to 10000
5 KVA) distorts the average price calculation of the higher volume purchases
6 relating to smaller (15-25 KVA) overhead transformers (see Oncor
7 Application workpaper WP/Schedule B-1/1/3/6 ME 06302024 at Bates page
8 1342). Mr. Nalepa's valuation of the "average cost per capacitor" at
9 \$4,192.36 is likewise overstated because he includes \$3,458,429.48 of
10 Capacitor Control assets in calculating his total capacitor investment of
11 \$8,166,716.53¹⁷ (see Oncor Application workpaper WP/Schedule B-1/1/3/6
12 ME 06302024 at Bates pages 1340-1341). Thus, Mr. Nalepa's
13 recommended exclusion of actual DIC from recovery in this proceeding is
14 not only contrary to the DCRF Rule, as I have described earlier in my rebuttal
15 testimony, it is inaccurately calculated in a manner that overstates its harmful
16 effects to Oncor's financial integrity.

17 Moreover, there is no basis found in the FERC Uniform System of
18 Accounts for Mr. Nalepa's recommendation to use his arbitrarily computed
19 average reserve levels from inconsistent historical time periods (*i.e.*, the
20 thirty (30) months ending June 2024 for meters;¹⁸ the twelve (12) months
21 ending December 2023 for transformers;¹⁹ and the twenty-four (24) months
22 ending December 2023 for capacitors²⁰) as the upper limit for reserve levels
23 includable in rates set in this case. In addition, Mr. Nalepa's sensationalistic

¹⁶ K. Nalepa Dir. at 14.

¹⁷ K. Nalepa Dir. at 18-19.

¹⁸ K. Nalepa Dir. at 8.

¹⁹ K. Nalepa Dir. at 13.

²⁰ K. Nalepa Dir. at 18.

1 comparison of current growth in asset reserve balances to Oncor's overall
2 customer growth rate of 1.9% is meaningless,²¹ given that Oncor's customer
3 premise base is more than 4,008,000.²² A more balanced comparison might
4 be to consider the recent increase in Oncor's serve new location construction
5 plan, which has grown 17.2% over the past five years, representing more
6 than 12,500 additional new premises to be added annually.

7 **III. SUMMARY AND CONCLUSION**

8 Q. PLEASE SUMMARIZE YOUR REBUTTAL TESTIMONY.

9 A. As summarized above, OCSC witness Mr. Nalepa recommends that certain
10 portions of Oncor's metering equipment, distribution transformers, and
11 capacitor investment held in reserve – which he asserts are in “excess” of
12 the amounts required to provide adequate service – be excluded from rates
13 set in this case. For the reasons described in Section II of my rebuttal
14 testimony (as well as in the direct and rebuttal testimony of Mr. Snelleman),
15 Mr. Nalepa's recommendations should be disregarded because they: (1) are
16 contrary to the provisions of PURA § 36.210 and the DCRF Rule; (2) are
17 contrary to the Commission's orders in Oncor's three most recent DCRF
18 proceedings, as well as the Order on Rehearing in Docket No. 53601; (3)
19 are arbitrarily calculated and based on average reserve level calculations
20 performed by Mr. Nalepa that have no basis in the FERC Uniform System of
21 Accounts guidance; and (4) are premised on an inaccurate assumption that
22 despite the exclusion of certain reserve quantities from rates in this case and
23 the resulting reductions to Oncor's distribution capital investment, Oncor
24 would still be made whole in a future base-rate case.

25 Q. DOES THIS CONCLUDE YOUR REBUTTAL TESTIMONY?

26 A. Yes.

²¹ K. Nalepa Dir. at 8, 13, and 17.

²² Form 10-Q - Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 For the Quarterly Period Ended June 30, 2024 (Aug. 6, 2024), page 39, available from the “Investor Relations (SEC Filings)” section of the www.oncor.com web-site.

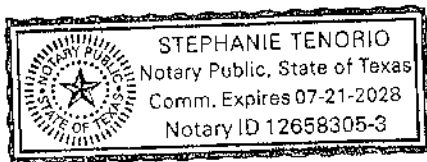
STATE OF TEXAS §
 §
COUNTY OF DALLAS §

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

My name is W. Alan Ledbetter. I am of legal age and a resident of the State of Texas. The foregoing rebuttal testimony offered by me is true and correct, and the opinions stated therein are, to the best of my knowledge, information, and belief, accurate, true, and correct.


W. Alan Ledbetter

SUBSCRIBED AND SWORN TO BEFORE ME by the said W. Alan Ledbetter this 18th day of September, 2024.




Notary Public, State of Texas