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

**ONCOR ELECTRIC DELIVERY COMPANY LLC’S REPLY TO OCSC EXCEPTIONS
TO THE PROPOSAL FOR DECISION**

TO THE HONORABLE PUBLIC UTILITY COMMISSION OF TEXAS:

Oncor Electric Delivery Company LLC (“Oncor” or the “Company”) timely files its Reply to OCSC Exceptions to the Proposal for Decision (“PFD”) addressing Oncor’s Application to update its distribution cost recovery factor (“DCRF”).¹ The PFD was filed on October 9, 2024, and the Steering Committee of Cities Served by Oncor (“OCSC”) was the only party to file exceptions to the PFD. In support of this Reply to OCSC Exceptions, Oncor respectfully shows as follows:

I. EXECUTIVE SUMMARY

The purpose of a DCRF update is to periodically adjust, in a streamlined proceeding, an electric utility’s rates based on changes in invested capital categorized or functionalized as distribution plant, distribution-related intangible plant, and distribution-related communication equipment and networks.² DCRF proceedings are limited in scope and are not base-rate cases. This limitation on scope is clearly reflected in 16 Tex. Admin. Code (“TAC”) § 25.243, which states that the issues of whether distribution invested capital sought through a DCRF adjustment complies with PURA, including §§ 36.053 and 36.058, and is prudent, reasonable, and necessary *shall not* be addressed in a DCRF proceeding except upon a finding of good cause.³ No such finding of good cause has been made in this proceeding. Further, in Oncor’s most recent base-rate case, the Public Utility Commission of Texas (“Commission”) confirmed that “[i]nterim transmission cost of service and distribution cost recovery factor proceedings are both interim

¹ In a memorandum dated October 9, 2024, Commission Counsel set October 18, 2024 as the deadline for filing Replies to Exceptions.

² Public Utility Regulatory Act, Tex. Util. Code §§ 11.001-66.016 (“PURA”) at § 36.210(a).

³ See 16 TAC § 25.243(c)(5).

updates that reserve reasonableness and prudence determinations for plant investments until the next base-rate proceeding.”⁴ Despite this clear instruction, the exceptions filed by OCSC suggest that it is improper to allow Oncor to include distribution invested capital (specifically, meter, transformer, and capacitor reserves) in its adjusted rates set in this case before Oncor has made a full showing that such investment is necessary to provide safe, reliable service to customers. Not only has OCSC asserted exceptions that are improper to raise within a DCRF proceeding, but Oncor has already provided sufficient evidence—admitted into the record⁵—showing that Oncor’s reserve levels for meters, transformers, and capacitors *are* justified, appropriate, and based on a meaningful set of factors. Thus, the Commission should deny OCSC’s exceptions in their entirety, as they fall outside of the scope of DCRF proceedings and they ignore credible record evidence showing that, as Commission Staff recommended⁶ and the Administrative Law Judge (“ALJ”) concluded, Oncor carried its burden in this docket.

II. INVESTMENT IN METER, TRANSFORMER, AND CAPACITOR RESERVES

While OCSC does not specify any particular findings of fact, conclusions of law, or ordering paragraphs to which it excepts, OCSC appears to take issue with the ALJ’s discussion on page 3 of the PFD in which the ALJ concludes that: (i) Oncor’s investments in reserve meters, transformers, and capacitors have been properly categorized or functionalized by Oncor and properly recorded in Federal Energy Regulatory Commission accounts 368 and 370, and are thus eligible for inclusion under the Commission’s DCRF rule; and (ii) Oncor does not have to demonstrate, at this time, the prudence, reasonableness, and necessity of its reserve levels.⁷ OCSC complains that the ALJ incorrectly fails to discuss the “lack of sufficient evidence provided by Oncor to demonstrate the increased investment in reserve meters, transformers, and capacitors should be allowed in DCRF plant in service,”⁸ and that the ALJ was “silent in his analysis of OCSC’s recommendation that a portion of these reserve meters, transformers, and capacitors were

⁴ *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.

⁵ Order No. 8 Admitting Additional Evidence (Oct. 9, 2024).

⁶ See *Commission Staff’s Recommendation on Final Disposition* (Sept. 16, 2024), including the attached memoranda, which recommends approval of Oncor’s DCRF Application and notes that the Commission shall reconcile investments recovered through a DCRF proceeding at the utility’s next comprehensive base-rate proceeding.

⁷ See Steering Committee of Cities Served by Oncor’s Exceptions to the Proposal for Decision (Oct. 15, 2024) (“OCSC’s Exceptions”) at 2 (citing page 3 of the PFD).

⁸ OCSC’s Exceptions at 2.

excessive of an appropriate level of reserves.”⁹ The PFD in this case, however, was *not* silent as to the ALJ’s analysis of OCSC’s contentions. Rather, the PFD referenced those contentions and OCSC’s testimony¹⁰ and then referred to Oncor’s explanation in Mr. Coler D. Snelleman’s rebuttal testimony concerning factors that Oncor considers when determining its meter, transformer, and capacitor reserves.¹¹ Specifically, Mr. Snelleman’s direct testimony explains that there are multiple operational reasons why Oncor must acquire and hold a sufficient number of meter, transformer, and capacitor reserves to ensure that the Company is prepared and able to provide service to new customers and maintain its provision of reliable service to existing customers, and he discusses how the replacement needs for already installed units, variable manufacturing lead times, customer-service dates, and manufacturer plant closures at year end for the holidays influence the determination of working reserves.¹² His rebuttal testimony further explains how, contrary to OCSC witness Mr. Nalepa’s oversimplification, the Company’s reserve level needs do not increase at the same rate as its customer count grows; instead, other factors discussed in his direct and rebuttal testimony (including but not limited to the continuing general supply chain uncertainty and disruption that began in 2020) heavily influence the determination of the appropriate reserve levels.¹³ Thus, contrary to OCSC’s allegations, the ALJ discussed and considered both sides of this argument. The ALJ then ultimately agrees with Oncor’s position on this issue. In reaching the correct conclusion, the ALJ recognized two key points that OCSC continues to miss.

First, the issue of whether Oncor has provided sufficient evidence supporting – as OCSC characterizes it – the “excess” reserve meters, transformers, and capacitors begs the threshold question of what level of reserves is appropriate and what level would be considered to be in excess of the amount needed to provide safe, reliable electric service. This is an issue that boils down to reasonableness, necessity, and prudence of investment: i.e., did the utility purchase more meters, transformers, or capacitors than it needs to perform its obligation of providing safe, reliable service

⁹ OCSC’s Exceptions at 1-2.

¹⁰ See PFD at 2-3 (citing the Direct Testimony of Karl J. Nalepa at 7-8, 13, and 17).

¹¹ See PFD at 3 (citing the Rebuttal Testimony of Coler D. Snelleman at 3).

¹² See the Direct Testimony of Coler D. Snelleman at Bates 130-132; Rebuttal Testimony of Coler D. Snelleman at 3.

¹³ Rebuttal Testimony of Coler D. Snelleman at 4-5.

to customers, thus rendering a portion of its investment unreasonable, unnecessary, or imprudent? As explained above, this issue falls entirely outside of the scope of a DCRF case. OCSC's Exceptions, in fact, even acknowledge that "[t]he PFD is correct in finding that under the DCRF Rule, Oncor does not have to demonstrate the prudence, reasonableness, and necessity of its reserve levels."¹⁴ OCSC, though, apparently fails to recognize what that means when it nevertheless complains in the very next sentence about an alleged "lack of sufficient evidence provided by Oncor to demonstrate the increased investment in reserve meters, transformers, and capacitors should be allowed in DCRF plant in service."¹⁵ OCSC's repeated argument is based squarely on the mistaken notion that Oncor should have to justify the appropriateness (in other words, the prudence, reasonableness, and necessity) of its capital investment in reserves within the DCRF proceeding or else Oncor should have to wait to recover that investment until its next base-rate case. OCSC's argument blatantly contradicts the prescribed scope of and purpose for interim DCRF proceedings, and the argument should be rejected.

The second key point that OCSC continues to overlook is that even if the issue it has raised was within the scope of a DCRF case (which it is not), Oncor *did* in fact provide evidence that supports Oncor's reserve levels included in its DCRF Application (namely consisting of Mr. Snelleman's direct and rebuttal testimony, as discussed above). In the PFD, the ALJ cites to that evidence presented by Oncor,¹⁶ and that evidence sufficiently supports the ALJ's conclusion on page 3 of the PFD and Finding of Fact 41 addressing reserve assets. Thus, OCSC's suggestion on page 1 of its exceptions that Oncor failed to provide evidence supporting its reserve levels is incorrect and misleading. This analysis performed by the ALJ also contradicts OCSC's claim that the ALJ "summarily found" that the investments in reserve assets were properly included in the DCRF Application,¹⁷ and it provides yet another reason why OCSC's exceptions should be rejected.

Finally, OCSC suggests that "[its] recommendation is not a disallowance, instead, it is a deferment until Oncor's next base rate proceeding at which time Oncor will have an opportunity

¹⁴ OCSC's Exceptions at 2.

¹⁵ *Id.*

¹⁶ PFD at 3 (citing the Rebuttal Testimony of Coler D. Snelleman at 3).

¹⁷ *See* OCSC's Exceptions at 2.

to provide support for these costs.”¹⁸ This recommendation has no basis in 16 TAC § 25.243 and offers no consolation to Oncor for denying its ability to include this capital investment in its rates adjusted in this proceeding. As explained in Oncor witness Mr. W. Alan Ledbetter’s rebuttal testimony, OCSC is incorrect in suggesting that under its recommended “deferment approach,” Oncor would still be “made whole for its investment” even if it is forced to wait until investment costs are reconciled in its next base-rate case before it can include that investment in rates.¹⁹ Specifically, Mr. Ledbetter explains that the average investment in distribution and distribution-related capital subject to update in a DCRF proceeding currently experiences a revenue lag of eight to nine months, and that in light of the Commission’s 48-month base-rate proceeding scheduling, OCSC’s recommendation would add at least two more years (i.e., 48 months divided by 2) to the financial drag arising from regulatory lag related to distribution and distribution-related invested capital.²⁰ This type of regulatory lag and the negative impacts on an electric utility’s earnings were the impetus behind the enactment of PURA § 36.210 and the Commission’s adoption of 16 TAC § 25.243.

Instead of adopting OSCS’s flawed recommendation, the ALJ correctly concluded that the Commission should approve Oncor’s request to amend its DCRF as requested, noting that the Commission will make determinations on whether the investments recovered through the DCRF are prudent, reasonable, and necessary “in Oncor’s DCRF reconciliation under 16 TAC § 25.243(f).”²¹ This is in keeping with the way the interim DCRF mechanism is intended to work.

III. CONCLUSION AND PRAYER

Oncor respectfully requests that the Commission consider the record evidence in this case (including the Application, the DCRF filing package, and the direct and rebuttal testimonies of Oncor’s witnesses), consider Staff’s recommendation of approval of Oncor’s Application, and adopt the PFD in this case. Oncor further requests that the Commission grant the Company such other and further relief to which it may be entitled.

¹⁸ OCSC’s Exceptions at 3; *see also* the Direct Testimony of Karl J. Nalepa at 9, 14, and 19.

¹⁹ *See* the Direct Testimony of Karl J. Nalepa at 10, 15, and 19.

²⁰ *See* the Direct Testimony of W. Alan Ledbetter at 5-6 (citing the 48-month schedule discussed in 16 TAC § 25.247).

²¹ PFD at 3; *see also* PFD at Conclusion of Law 20.

Respectfully submitted,

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CERTIFICATE OF SERVICE

I hereby certify that a true and correct copy of the foregoing was provided to all parties of record by electronic mail on this 17th day of October, 2024, in accordance with the Commission's Second Order Suspending Rules issued on July 16, 2020, in Project No. 50664.

/s/ Stephanie Tenorio