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**JOINT REPORT AND APPLICATION §
OF SHARYLAND UTILITIES, L.P., §
SHARYLAND DISTRIBUTION & §
TRANSMISSION SERVICES, L.L.C., §
AND ONCOR ELECTRIC DELIVERY §
COMPANY LLC FOR TRANSFER OF §
FACILITIES, TRANSFER OF RIGHTS §
UNDER AND AMENDMENT OF §
CERTIFICATES OF CONVENIENCE §
AND NECESSITY, AND FOR OTHER §
REGULATORY APPROVALS §**

PUBLIC UTILITY COMMISSION

OF TEXAS

ORDER

This Order addresses the joint report and application of Sharyland Utilities, L.P., Sharyland Distribution & Transmission Services, L.L.C., and Oncor Electric Delivery Company LLC (Oncor) (joint applicants) for transfer of facilities, transfer of rights under and amendment to certificates of convenience and necessity, and for other regulatory approvals (proposed transaction). A stipulation and settlement agreement was included as exhibit A to the joint application. The joint report and application is approved.

I. Background

The joint application requests the Commission's approval of a transaction in which the joint applicants will exchange certain assets with each other, resulting in all of Sharyland Utilities' existing retail-electric-delivery customers becoming Oncor's retail-electric-delivery customers and Sharyland Utilities serving only as a transmission-service provider. Specifically, the proposed transaction contemplates that Sharyland Utilities and Sharyland Distribution & Transmission Services will transfer to Oncor all property and other assets used in Sharyland Utilities' retail-electric-distribution business (other than certain excluded assets that Oncor declines to acquire) and all obligations and liabilities to the extent they arise from or relate to the use or operation of such assets (other than certain excluded liabilities) in the Stanton and McAllen divisions. Sharyland Utilities will retain the existing transmission and substation assets (including the distribution portion of those substations) in those two divisions. In addition, for the Brady and Celeste divisions, Sharyland Utilities and Sharyland Distribution & Transmission Services will transfer to Oncor all property and other assets used in Sharyland Utilities' electric-transmission

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and distribution business (other than certain excluded assets) and all obligations and liabilities to the extent they arise from or relate to the use or operation of those assets (other than certain excluded liabilities).

The proposed transaction will provide significant rate relief to Sharyland Utilities' current retail-electric-delivery customers in the Stanton, Brady, and Celeste divisions (SBC divisions). In addition, the expected rate increase for Sharyland Utilities' retail-electric-delivery customers in the McAllen division will be avoided. Ultimately, the proposed transaction seeks to resolve the rate disparity that currently exists between Sharyland Utilities' high retail-electric-delivery rates and those of Oncor and the other transmission and distribution utilities (TDUs) in the Electric Reliability Council of Texas, Inc. (ERCOT) power region.

The Commission adopts the following findings of fact and conclusions of law:

II. Findings of Fact

Procedural History

1. On August 4, 2017, joint applicants filed a joint report and application requesting approval of the proposed transaction and a Commission determination that: (a) the proposed transfer of assets between the joint applicants is in the public interest under PURA¹ § 14.101, and to the extent applicable, PURA §§ 39.262(*l*)-(m) and 39.915; (b) the certificate of convenience and necessity (CCN) rights associated with the assets transferred from Sharyland Distribution & Transmission Services and Sharyland Utilities' retail-service territory should be transferred to Oncor under PURA § 37.154; (c) Sharyland Utilities' CCNs should be amended to permit Sharyland Utilities to operate and maintain the transmission assets transferred from Oncor; and (d) the regulatory conditions and commitments in support of the proposed transaction and agreed to in the agreement are reasonable and should be approved.
2. On August 7, 2017, the Commission issued Order No. 1 requiring Commission Staff's comments and recommendations, establishing deadline to intervene, and entering a protective order.

¹ Public Utility Regulatory Act, Tex. Util. Code Ann. §§ 11.001 – 58.303 (West 2016), §§ 59.001 – 66.017 (West 2007 & Supp. 2017) (PURA).

3. On August 7, 2017, notice of the joint report and application was submitted to the *Texas Register* for publication on August 18, 2017.
4. On August 17, 2017, Commission Staff filed a recommendation on sufficiency, stating the joint report and application are sufficient for further review and that the proposed notice is reasonable. Commission Staff also proposed a procedural schedule.
5. On August 18, 2017, the Commission issued an order requesting list of issues.
6. On August 21, 2017, the Commission issued Order No. 3, finding the application and notice sufficient and establishing a procedural schedule.
7. Intervenor status was requested by and granted to the following signatories to the agreement: Office of Public Utility Counsel (OPUC), Cities of Midland, Colorado City, McAllen, and Farmersville, TXU Energy Retail Company LLC, Reliant Energy Retail Services, Green Mountain Energy Company, and US Retailers, LLC (NRG Companies), Texas Cotton Ginners' Association, Alliance for Retail Markets, Texas Energy Association for Marketers, and Texas Industrial Energy Consumers.
8. On August 31, 2017, the Commission filed a preliminary order identifying the issues to be addressed in this docket.
9. On September 5, 2017, ERCOT requested intervention to assist joint applicants in maintaining compliance under the ERCOT Protocols with respect to the proposed retail transition, as well as the transition of transmission assets. ERCOT was granted intervenor status on September 6, 2017.
10. On September 6, 2017, the Commission issued Order No. 6, admitting evidence into the record of this proceeding.
11. On September 6, 2017, Commission Staff filed a recommendation that the Commission find that the proposed transaction is in the public interest and approve the application consistent with the agreement.
12. On September 8, 2017, Steering Committee of Cities Served by Oncor (Cities) filed a motion to intervene in this proceeding.
13. On September 12, 2017, the City of Mission filed a motion to intervene in this docket.

14. On September 12, 2017, joint applicants filed an affidavit attesting to the provision of notice in this case.
15. On September 19, 2017, the Commission issued Order No. 7, granting the interventions of Cities and the City of Mission and admitting additional evidence into the record of this proceeding.
16. At the September 28, 2017 open meeting, the Commission opened the record and, receiving no objection, admitted the affidavit of J. Michael Sherburne of Oncor Electric Delivery Company, filed on September 15, 2017, into the record.

Notice

17. Notice of the proposed transaction and this docket was provided by first-class mail to (a) all counties and municipalities in which the transferred assets are located, (b) all entities listed in the Commission's wholesale transmission matrix, (c) all retail electric providers (REPs) serving customers in Sharyland Utilities' and Oncor's service territories, and (d) all neighboring utilities and electric cooperatives. In addition, notice of this docket was provided by publication in newspapers having general circulation in the counties in which the assets are located once each week for two consecutive weeks in accordance with 16 Texas Administrative Code (TAC) § 22.55. A complete copy of the joint report and application was provided to counsel for all parties in Docket Nos. 45414² and 46957.³
18. No requests for hearing were filed in this proceeding and no hearing is required.

Description of the Parties to the Transaction

19. Sharyland Utilities is currently a TDU serving approximately 54,000 metered and unmetered accounts in a service territory that includes 29 counties and 4 noncontiguous, geographically-diverse divisions (*i.e.*, the McAllen and the SBC divisions). The transmission facilities consist of 69, 138, and 345-kilovolt (kV) transmission lines (and related infrastructure) connected to the ERCOT grid; a 300 megawatt (MW) high-voltage-direct-current interconnection between ERCOT and the Mexican electric grid; and a

² *Review of the Rates of Sharyland Utilities, L.P., Establishment of Rates for Sharyland Distribution & Transmission Services, L.L.C., and Request for Grant of a Certificate of Convenience and Necessity and Transfer of Certificate Rights*, Docket No. 45414 (pending).

³ *Application of Oncor Electric Delivery Company LLC for Authority to Change Rates*, Docket No. 46957 (pending).

transmission operations center and backup control center in Amarillo, Texas. The 345-kV transmission lines include approximately 300 miles of line in competitive renewable energy zones in the Panhandle and South Plains regions of Texas.

20. The owners of Sharyland Utilities formed Sharyland Distribution & Transmission Services to facilitate broader financing options for new transmission and distribution assets. The 2008 final order in Docket No. 35287⁴ approved a restructuring of Sharyland Utilities, in which Sharyland Utilities transferred its ownership interests in its transmission and distribution assets to Sharyland Distribution & Transmission Services and Sharyland Distribution & Transmission Services leases the transmission and distribution assets to Sharyland Utilities to operate and provide service to wholesale and retail customers.⁵
21. Oncor owns and operates facilities used to transmit and distribute electricity in northeast, central, and west Texas, including the Dallas-Fort Worth Metroplex area. Oncor delivers electricity to more than 3.4 million wholesale and retail customers in over 400 cities and over 90 counties in Texas through one of the largest integrated electric systems in the United States and the largest in Texas.

Description of the Proposed Transaction

22. The proposed transaction is an exchange of assets between the joint applicants. Sharyland Distribution & Transmission Services and Oncor will exchange certain assets with each other and Oncor will purchase certain associated property from Sharyland Utilities, resulting in all of Sharyland Utilities' existing retail-electric-delivery customers becoming Oncor's retail electric delivery customers and Sharyland Utilities no longer operating as a distribution-service provider. The terms and conditions involving the proposed transaction are described in detail in the July 21, 2017 agreement and plan of merger (merger agreement) between Sharyland Utilities, Sharyland Distribution & Transmission Services, and Oncor.
23. The proposed transaction primarily involves the exchange of like-kind assets as that term is defined in section 1031 of the Internal Revenue Code of 1986 (Code). For any of

⁴ *Application of Sharyland Utilities, L.P. and Sharyland Distribution & Transmission Services, L.P. for Regulatory Approvals Pursuant to PURA §§ 14.101, 39.262, and 39.915, Docket No. 35287, Order (Jul. 21, 2008).*

⁵ *Id.*

Sharyland Distribution & Transmission Services' assets that do not qualify as like-kind, Oncor will provide a cash payment.

24. To effectuate the proposed transaction, the parties formed new limited liability companies—SDTS AssetCo, L.L.C. (SDTS AssetCo), SU AssetCo, L.L.C. (SU AssetCo), and Oncor AssetCo LLC (Oncor AssetCo). Sharyland Distribution & Transmission Services and Sharyland Utilities will transfer all of their assets and liabilities (other than certain excluded assets and liabilities) associated with the retail-electric-distribution business to SDTS AssetCo and SU AssetCo, respectively. With respect to the Brady and Celeste divisions, certain transmission assets (other than certain excluded assets and liabilities) will also be allocated by Sharyland Distribution & Transmission Services and Sharyland Utilities to SDTS AssetCo and SU AssetCo. Oncor will also acquire Sharyland Utilities' rights under its CCNs to operate and maintain the assets and provide retail electric delivery service in the geographic areas currently certificated to Sharyland Utilities.
25. Oncor will transfer the following transmission assets to Oncor AssetCo prior to closing (a) approximately the western-most 60 miles of the 345-kV transmission line from Clear Crossing-to-Willow Creek, (b) approximately the western-most 12 miles of the 345-kV transmission line from Bowman-to-Riley, (c) approximately the western-most 13 miles of the 345-kV transmission line from Riley-to-Krum West, (d) the 345-kV transmission line from Bluff Creek-to-Brown, and (e) approximately the western-most 85 miles of the 345-kV transmission line from Brown-to-Newton. If the net book value of certain of the Sharyland Distribution & Transmission Services assets to be transferred to Oncor exceeds \$390 million, the Brown static volt-ampere reactive (VAR) compensator will be included in the Oncor assets and the mileage of the transmission lines to be transferred to Sharyland Distribution & Transmission Services will be reduced on a tower-by-tower basis accordingly.
26. The assets and other consideration exchanged between joint applicants will be of substantially similar value. Sharyland Distribution & Transmission Services will exchange an estimated \$400 million of distribution and transmission assets and certain associated property for approximately \$380 million of transmission assets and \$20 million in cash from Oncor, subject to a customary true-up at or after closing. Additionally, Sharyland Utilities will receive approximately \$6.5 million in cash, net of liabilities and subject to a

customary true-up at or after closing, for the general plant and regulatory assets that Sharyland Utilities will transfer to Oncor.

27. The value of the joint applicants' respective assets will be determined based on the net book value of such assets as of the date of closing. At closing, SDTS AssetCo and SU AssetCo will merge with and into Oncor, with Oncor as the surviving entity, and Oncor AssetCo will merge with and into Sharyland Distribution & Transmission Services, with Sharyland Distribution & Transmission Services as the surviving entity. With respect to the non-like-kind assets contained in SDTS AssetCo, Oncor will pay for these assets in cash. The sum of the net book value of Oncor's assets in Oncor AssetCo and the cash payment will be similar in value to the assets transferred from Sharyland Distribution & Transmission Services and Sharyland Utilities to SDTS AssetCo and SU AssetCo.
28. Sharyland Utilities seeks to recover certain actual transition costs in an amount not to exceed \$17 million that Sharyland Utilities will incur as a result of the proposed transaction.
29. Oncor has committed that none of the fees and expenses, or any of the other transaction costs of the proposed transaction, including the costs of this proceeding, will be borne by Oncor's customers. It is appropriate for Oncor to take the necessary measures to closely track the transaction costs incurred in connection with the proposed transaction.
30. The ERCOT Protocols contain various timing requirements regarding Market Participant updates to ERCOT systems. For example, ERCOT Protocol Section 3.10.1, Time Line for Network Operations Model Changes, requires that transmission-service providers submit timely Network Operations Model change requests (NOMCRs) (e.g., facility addition, revision, or deletion), pursuant to the ERCOT NOMCR process. Furthermore, transmission-service providers "shall submit Network Operations Model updates *at least three months* prior to the physical equipment change," and ERCOT is required to update the Model according to a schedule. ERCOT Protocol Section 3.10.1(3) (emphasis added). Should ERCOT deviate from the timeline set forth in ERCOT Protocol Section 3.10.1, ERCOT must report such changes to Commission Staff, the Independent Market Monitor, and the market *via* Market Notice. Joint applicants will work with ERCOT to coordinate the transition of transmission assets, and develop reasonable timelines to ensure that

ERCOT models and databases are updated to reflect proper ownership of the transitioned transmission assets. Given that the proposed transaction is expected to close before ERCOT can update its Network Operations Model and possibly other ERCOT systems per timing requirements under the Protocols, ERCOT and joint applicants should be exempt from any timing requirements under the ERCOT Protocols as related to updating ERCOT models, databases, and/or systems to reflect proper asset ownership resulting from the proposed transition.

Transition of Customers from Sharyland Utilities to Oncor

31. Joint applicants will coordinate the transition of all of Sharyland Utilities existing retail electric delivery customers to Oncor (transition) under a transition services agreement. Sharyland Utilities will continue to provide retail electric delivery service to its current customers under its retail electric delivery tariff until the transition is finalized, and will retain the limited necessary CCN rights to provide these services during the transition. The transition is expected to take approximately 30 to 60 days after the proposed transaction closes.
32. Joint applicants will hold a series of workshops and market calls with Commission Staff, OPUC, ERCOT, affected customers, and affected REPs to plan and coordinate the transition, consistent with applicable ERCOT and Commission requirements. Joint applicants will work with these parties to develop reasonable timelines for the necessary processes.
33. For the customers transitioned from Sharyland Utilities, Oncor will establish new electric service identifiers (ESIDs), assigning each new ESID to the corresponding Oncor rate class under the applicable tariff provisions. Oncor will provide reasonable notice to each customer's REP of record as to the assigned rate class for each ESID.
34. Sharyland Utilities should not be required to maintain the ability to process cancels or rebills through a customer-information system or electronic-data-interchange-market interfaces as required by the ERCOT retail market guide.⁶ Sharyland Utilities will, however, maintain financial responsibility for cancelled or rebilled amounts that are required to be paid for the period prior to the time that retail-electric-delivery customers

⁶ See ERCOT Retail Market Guide § 7.11.6(3)(h).

are transitioned to Oncor. Sharyland Utilities will work with REPs, ERCOT, and retail-electric-delivery customers through the series of workshops discussed above to develop procedures to appropriately process such cancelled or rebilled amounts, as well as any associated resettlement of the ERCOT market.

35. Sharyland Utilities should be exempted from the fall 2017 ERCOT flight test with the REPs.

Description of the Applicants Following the Closing of the Proposed Transaction

36. Following the closing of the proposed transaction, Sharyland Utilities will operate only as a transmission-service provider, serving wholesale customers through its wholesale-transmission-service tariff and its wholesale-distribution-substation-service tariff.
37. After closing, Oncor will serve Sharyland Utilities' current retail-electric-delivery customers. Sharyland Utilities will no longer serve retail-electric-delivery customers and will no longer serve as a distribution-service provider.

Effect of the Proposed Transaction

38. The proposed transaction will not adversely affect the health or safety of Sharyland Utilities' or Oncor's customers.
39. The proposed transaction will not result in the transfer of jobs of citizens of this state to workers domiciled outside of this state.
40. The proposed transaction will not result in a decline in service by Sharyland Utilities or Oncor.
41. The proposed transaction will afford significant rate relief to Sharyland Utilities' current retail-electric-delivery customers, which will be transitioned to Oncor.

The Agreement

42. The signatories agree to the following:
 - a. The proposed transaction is in the public interest under PURA §§ 14.101, 39.262(l)–(m), and 39.915.
 - b. the transfer to Oncor of all of Sharyland Utilities' rights under its CCNs to provide retail-electric-delivery service (transmission and distribution voltage) in the geographic areas currently certificated to Sharyland Utilities, including the right to

construct facilities necessary to interconnect retail customers, including new load-serving substations (on terms to be more definitively set forth in the interconnection agreement between Sharyland Utilities and Oncor) should be approved under PURA § 37.154.

- c. An amendment to Sharyland Utilities' CCNs to permit Sharyland Utilities to operate and maintain the transmission assets transferred from Oncor should be approved.
- d. A revision to Sharyland Utilities' wholesale-transmission-service rate in this proceeding to reflect the addition to rate base of the transmission assets transferred from Oncor should be approved. This revision will not count against Sharyland Utilities' annual allowable interim-transmission-cost-of-service (TCOS) updates under 16 TAC § 25.192(h)(1). Upon closing of the proposed transaction, Sharyland Utilities will begin charging wholesale customers under a revised wholesale-transmission-service tariff to reflect the aforementioned rate-base additions. Before the closing of the proposed transaction, Sharyland Utilities will file a revised wholesale-transmission-service tariff as a compliance filing.
- e. Sharyland Utilities' recovery of certain actual transition costs associated with the proposed transaction in an amount not to exceed \$17 million should be approved. The transition costs will be recovered through a rider to Sharyland Utilities' wholesale-transmission-service tariff, which will take effect on January 1, 2018, and shall remain in effect for a period of two years.
- f. Joint applicants' respective rate bases should be adjusted to reflect the impacts of the proposed transaction, including for impacts of the proposed transaction related to accumulated-deferred-federal-income taxes (ADFIT), as described below in subsections g. and h.
- g. Upon the closing of the proposed transaction, each of Oncor and Sharyland Distribution & Transmission Services shall remove or eliminate the ADFIT attributable to the assets each is dispensing of and book a deferred tax liability (resulting in an effective reduction of their rate bases) under Accounting Standards Codification 740 (FAS 109) (or similar generally accepted accounting principles (GAAP)) to account for the difference in initial GAAP and the federal tax bases of

Sharyland Distribution & Transmission Services' and Oncor's newly-acquired assets, respectively.

- h. Oncor and Sharyland Distribution & Transmission Services shall use commercially reasonable efforts to procure private letter ruling(s) from the Internal Revenue Service confirming that this treatment of ADFIT is consistent with, and does not violate, the normalization accounting rules of section 168(i)(9) of the Code, as amended, and treasury regulations Section 1.167(1)-1(h) (private letter ruling). If a favorable private letter ruling is not obtained, then the latter above-described deferred tax liability adjustments for the newly-acquired assets shall be reversed, and joint applicants will be authorized to capture the difference and record on their respective books a recoverable regulatory asset in the dollar amount that has been under-recovered as a result of the treatment of ADFIT. For Sharyland Utilities, the recoverable regulatory asset will be recorded for the period beginning on the date Sharyland Utilities' wholesale-transmission-service rates approved in accordance with subsection d. above became effective and end on the date that new rates are adopted for Sharyland Utilities reflecting the reversal of such deferred-tax liability. For Oncor, the recoverable regulatory asset will be recorded for the period beginning on the date that Oncor's existing rates became effective and ending on the date that new rates are adopted for Oncor reflecting the reversal of such deferred-tax liability. Oncor's rates and Sharyland Utilities' rates will be adjusted accordingly in future rate proceedings.
- i. All capital investment in the assets transferred between the joint applicants was prudently incurred and should be included in rate base.
- j. Oncor's recovery of the interim rate regulatory asset related to Sharyland Utilities' residential interim rates approved in Docket No. 45414 should be approved.
- k. Oncor should be allowed to incorporate Sharyland Utilities' energy-efficiency-cost-recovery-factor (EECRF) and transmission-cost-recovery-factor (TCRF) regulatory assets or liabilities into Oncor's EECRF and TCRF, respectively.
- l. Sharyland Utilities is relieved from all reporting obligations related to the operation of the assets transferred from Sharyland Distribution & Transmission Services with respect to reports that are due on or after the proposed transaction closes, including,

but not limited to, annual system average interruption duration index (SAIDI) and system average interruption frequency index (SAIFI) reports.

- m. While Oncor is committed to improving service in the legacy Sharyland Utilities service area, it will take a period of time for Oncor to evaluate, determine the needs of the system, and execute upon reliability improvement measures. Therefore, for the first ten full years after closing of the proposed transaction, all Commission reliability and continuity of service reporting under 16 TAC §§ 25.52 and 25.81 will be reported separately for the current Oncor service territory and the legacy Sharyland Utilities service territory. For this ten-year period, Oncor will not be subject to enforcement action or penalty for the performance of the legacy Sharyland Utilities service territory. During this ten-year separate reporting period, Oncor and the Commission will together develop an appropriate process for integrated reporting for the two distribution systems going forward after the separate reporting period.
- n. Oncor may deploy an advanced-metering system (AMS) in Sharyland Utilities' current service territories. Oncor will submit a compliance filing outlining a schedule for AMS deployment, by geographic division, within a reasonable time following approval of the agreement. Oncor expects to complete AMS deployment (including meter provisioning and lode star enhanced file submittals) in the legacy Sharyland Utilities service territories by December 31, 2018.
- o. Through December 31, 2019, Oncor shall continue to own and maintain those limited distribution lines that are on the customer's side of an existing meter at existing locations. After December 31, 2019, the customers who are served by those distribution lines will own and be responsible for maintaining those lines.
- p. Any customer in the area currently served by Sharyland Utilities who requests new service after the proposed transaction closes will be required to have its pole set in accordance with Oncor's policy and practice regarding poles and associated equipment. Current customers of Sharyland Utilities who become customers of Oncor as a result of the proposed transaction will not be required to set their own service poles at the time of their transition to Oncor. However, if those customers'

service poles break or are damaged in the future, the customer will be required to have its pole set in accordance with Oncor's policy and practice.

- q. As a condition to closing the proposed transaction, the dismissal of Docket No. 45414 must be on terms that are identical in all material respects to the joint unanimous motion to dismiss and the unanimous stipulation regarding dismissal of Docket No. 45414 filed in Docket No. 45414.
- r. As a condition to closing the proposed transaction, the issuance of a final order approving the settlement of Oncor's base-rate case in Docket No. 46957 must be on terms that are identical in all material respects to the terms of the agreement filed in Docket No. 46957.
- s. Oncor will establish a corresponding new ESID for each existing ESID currently assigned to Sharyland according to the plan established under the requirements of subsection t. Each new Oncor ESID will be assigned to the corresponding Oncor rate class under the applicable tariff provision. Oncor shall provide reasonable notice to the customer's REP of record as to the assigned rate class for each ESID.
- t. The proposed transaction and subsequent establishment of new ESIDs for each customer will not, by itself, be deemed as an enrollment in a new retail electric product and will not require authorization disclosures or verification requirements for the REP of record.
- u. Joint applicants shall engage Commission Staff, OPUC, ERCOT, affected customers, and affected REPs serving customers in Sharyland Utilities' service territories to hold a series of workshops and market calls to plan and coordinate the transition of Sharyland Utilities' current retail-electric-delivery customers to Oncor under any applicable ERCOT Protocols, Guides, and Other Binding Documents. Joint applicants shall engage participants in workshop(s) to develop reasonable timelines for all aspects of the transition. The parties shall endeavor to complete the transition within sixty days of the closing of the proposed transaction.
- v. All of Sharyland Utilities' service delivery points will be transitioned to Oncor on a scheduled meter read date for each ESID under the plan developed under subsection u., and Oncor will obtain a new ESID for these customers. Thereafter,

these customers will be served by Oncor and be charged Oncor's standard retail electric delivery rates.

- w. Joint applicants shall provide affected REPs serving customers in Sharyland Utilities' service territories with reasonable advance notice of each of the anticipated closing date of the proposed transaction, any meetings of the workshop participants held under subsection u., and the date that ESID transitions will begin.

Energy-Efficiency-Cost-Recovery-Factor Proposal

43. At the closing of the proposed transaction, Oncor will acquire from Sharyland Utilities its EECRF regulatory asset or liability for book value and combine it with the EECRF regulatory asset or liability on Oncor's books. Oncor is seeking approval to recover or refund the balance in the Sharyland Utilities EECRF regulatory asset or liability, and include this amount as part of Oncor's EECRF rate. After the proposed transaction closes, Sharyland Utilities' retail-electric-delivery customers will become Oncor's retail-electric-delivery customers and pay Oncor's rates, including Oncor's EECRF rate. The proposed transaction will not delay the refund of either Oncor or Sharyland Utilities' over recovered 2016 energy-efficiency costs.
44. If approved, Oncor's 2018 EECRF will be effective March 1, 2018 and will include the refund of \$6,097,744 for Oncor's over recovered 2016 energy-efficiency costs. By then it is expected that the proposed transaction will have been approved, closed, and Sharyland Utilities' retail-electric-delivery customers will be Oncor's customers.
45. Approval and closing of the proposed transaction will result in the credit of \$243,199 for Sharyland Utilities' over recovered 2016 energy-efficiency costs being refunded to the appropriate Oncor rate classes, including former Sharyland Utilities customers, in accordance with 16 TAC § 25.181, effective March 1, 2018. Thus, the total amount of the refund through Oncor's 2018 EECRF will be \$6,340,943.
46. Consistent with 16 TAC § 25.181, Oncor will file by April 1, 2018, a single energy-efficiency plan and report covering Sharyland Utilities and Oncor, followed by a single EECRF application by June 1, 2018. In Oncor's EECRF application, it will show adjustments for past over and under recovery of energy-efficiency revenues. For clarity, Oncor will show the over and under recoveries separately for the two utilities but combine

them as part of the reconciliation and calculation of a single Oncor EECRF rate. If approved, that rate would be effective March 1, 2019.

47. Oncor is receiving the necessary historical program data from Sharyland Utilities in connection with the closing of the Sharyland transaction. Such data will include 2017 revenues and expenses by program and rate class. This will enable Oncor to reconcile Sharyland Utilities' 2017 program costs in the same manner that Oncor will reconcile its 2017 program costs.

Basis for Relief

48. The proposed transaction will provide substantial rate relief to Sharyland Utilities' current retail-electric-delivery customers in the SBC divisions. The proposed transaction will also allow Sharyland Utilities' current retail-electric-delivery customers in the McAllen division to avoid a significant potential rate increase.
49. The proposed transaction, coupled with the terms of the agreement, will not adversely affect Sharyland Utilities wholesale electric-delivery rates or Oncor's wholesale or retail-electric-delivery rates.
50. The proposed transaction, coupled with the terms of the agreement, is consistent with the public interest under PURA §§ 14.101, 39.262(l)–(m), and 39.915.
51. The proposed transaction will not materially affect the health or safety of customers or employees or result in a decline in service. Oncor has a widely-recognized record of providing reliable service and is highly qualified to provide safe and reliable service to Sharyland Utilities' current retail-electric-delivery customers. Sharyland Utilities has been providing transmission service for many years and is qualified to operate and maintain the transmission assets transferred from Oncor.
52. The proposed transaction will not result in the transfer of jobs from citizens of Texas to workers outside the state because Sharyland Utilities and Oncor operate exclusively within Texas.
53. The proposed transaction will not adversely affect joint applicants' reliability of service, availability of service, or cost of service.

54. Oncor currently operates the largest transmission and distribution system in the state and one of the largest in the country. Oncor has a reputation of providing high quality service to millions of Texans and can provide adequate service.
55. It is reasonable and appropriate that Oncor file combined reliability and continuity of service reporting under 16 TAC §§ 25.52 and 25.81 for the current Oncor service territory and legacy Sharyland Utilities service territory, in addition to the separate reporting.
56. Sharyland Utilities has provided safe and reliable transmission service within ERCOT since 2000 and has received Commission approval to build, acquire, operate, and maintain several transmission facilities within the last several years. Sharyland Utilities is capable of providing adequate service to wholesale transmission customers.

III. Conclusions of Law

1. Sharyland Utilities, L.P., Sharyland Distribution & Transmission Services, LLC, and Oncor are electric utilities as that term is defined in PURA § 31.002.
2. The Commission has jurisdiction and authority over this proceeding under PURA §§ 14.101, 35.004, 37.154, 39.262, and 39.915.
3. Joint applicants provided proper and adequate notice of the joint report and application consistent with 16 TAC § 22.55.
4. The agreement reached by the signatories resolves all of the issues in this docket.
5. The joint report and application may be approved without a hearing under § 2001.056 of the Administrative Procedure Act.⁷
6. The proposed transaction is governed by PURA §§ 14.101, 37.154, 39.262, and 39.915.
7. The proposed transaction and the provisions of the agreement are consistent with the public interest within the meaning of PURA §§ 14.101, 39.262, and 39.915 and otherwise satisfy the applicable requirements of those sections, so long as all conditions and commitments set forth in this Order are satisfied.
8. PURA § 37.051 requires Sharyland Distribution & Transmission Services, L.L.C. to have a CCN to provide indirect service to the public via the lease of its transmission assets.

⁷ Tex. Gov't Code Ann. §§ 2001.001-.902 (West 2016).

9. Sharyland Utilities and Oncor have shown that they have the ability to provide adequate service under PURA § 37.154.
10. The evidence presented shows that Sharyland Distribution & Transmission Services, L.L.C. can provide adequate service, as required by PURA § 37.154.
11. The transfer to Oncor of all of Sharyland Utilities' rights under its CCNs to provide retail electric delivery service (transmission and distribution voltage) in the geographic areas currently certificated to Sharyland Utilities meets the requirements of PURA § 37.154.
12. All capital investment in the assets transferred between the joint applicants was prudently incurred.
13. Oncor shall not recover any fees or expenses, or any of the other transaction costs of the proposed transaction, including the costs of this proceeding from customers. Oncor shall take the necessary measures to track the transaction costs incurred in connection with the proposed transaction.
14. The Commission may enforce any representation or commitment made by the joint applicants under PURA §§ 39.262(o) and 39.915(d).
15. The requirements for informal disposition under 16 TAC § 22.35 have been met in this proceeding.

IV. Ordering Paragraphs

In accordance with these findings of fact and conclusions of law, the Commission issues the following orders:

1. The proposed transaction is in the public interest under PURA §§ 14.101, 39.262(l)–(m), and 39.915, and the joint report and application is approved, subject to the conditions set forth in this Order.
2. The Commission approves the transfer to Oncor of all of Sharyland Utilities' rights under its CCNs to provide retail electric delivery service (transmission and distribution voltage) in the geographic areas currently certificated to Sharyland Utilities.
3. Sharyland Utilities' CCNs are amended to permit Sharyland Utilities to operate and maintain the transmission assets transferred from Oncor at closing. Sharyland Utilities

shall retain limited CCN rights to provide service to retail electric delivery customers during the transition period until the customers are transitioned to Oncor. Any CCN rights related to the provision of retail electric delivery service retained by Sharyland Utilities are terminated when the last customer of Sharyland Utilities is transferred to Oncor.

4. CCN number 30198 is granted to Sharyland Distribution & Transmission Services, L.L.C. The certificate will authorize Sharyland Distribution & Transmission Services, L.L.C. to own transmission facilities and lease those facilities to Sharyland Utilities. This includes the transmission facilities Sharyland Distribution & Transmission Services currently owns, those approved in Docket No. 46726,⁸ and those transferred from Oncor Electric Delivery Company at closing.
5. At least 15 days before the closing of the transaction, Sharyland Utilities shall file an interim wholesale-transmission-service tariff as a compliance filing to reflect the transmission assets transferred from Oncor approved for addition to rate base and to reflect the removal of the Sharyland Utilities and Sharyland Distribution & Transmission Services transmission assets transferred to Oncor. The interim wholesale-transmission-service tariff will become effective upon the closing of the proposed transaction, and will be subject to refund or surcharge consistent with 16 TAC § 22.152(e). Commission Staff shall review the calculations used to develop the rate to ensure that they appropriately capture the plant balances transferred and make a recommendation on the approval of the revised wholesale-transmission-service tariff. The revised wholesale-transmission-service tariff will become effective upon Commission approval. Neither the interim wholesale-transmission-service tariff nor the revised wholesale-transmission-service tariff will count against Sharyland Utilities' annual allowable interim TCOS updates under 16 TAC § 25.192(h)(1). All compliance filings required by the ordering paragraph shall be made in Docket No. 47649.
6. The Commission approves Sharyland Utilities' request to recover actual transition costs associated with the proposed transaction, in the categories set forth in Exhibit DGW-2 to the direct testimony of D. Wilks, in an amount not to exceed \$17 million through a rider to its WTS tariff. The rider will take effect on January 1, 2018, and shall remain in effect for a period of two years, or until the transition costs are fully recovered. Sharyland Utilities

⁸ *Application of Sharyland Utilities, L.P. to Amend a Certificate of Convenience and Necessity for the Stiles to Coates 138-kV Transmission Line in Reagan County*, Docket No. 46726, Final Order (Sept. 26, 2017).

shall use best efforts to sell any retail-distribution assets not being exchanged in the proposed transaction and minimize the amount to be recovered as transition costs. Sharyland Utilities shall use reasonable efforts to ensure that any employee-related transition costs to be recovered are consistent with those costs identified in exhibit DGW-3 to the direct testimony of D. Greg Wilks. Sharyland Utilities shall file evidence of its actual transition costs in a compliance docket within six months of the closing of the transaction. Commission Staff shall review the filing to ensure that the transition costs are included in those categories of cost that have been approved in this Order. All transition costs appropriately identified in approved categories as set forth in exhibit DGW-2 shall be recoverable, up to the \$17 million limit. All compliance filings required by the ordering paragraph shall be made in Docket No. 47649.

7. Joint applicants shall adjust their respective rate bases to reflect the impacts of the proposed transaction, including for impacts of the proposed transaction related to ADFIT.
8. Upon closing of the proposed transaction, each of Oncor and Sharyland Distribution & Transmission Services shall remove or eliminate the ADFIT attributable to the assets each is dispensing of and book a deferred tax liability (resulting in an effective reduction of their rate bases) under Accounting Standards Codification 740 (FAS 109) (or similar GAAP) to account for the difference in initial GAAP and the federal tax bases of SDTS's and Oncor's newly-acquired assets, respectively.
9. Oncor and Sharyland Distribution & Transmission Services shall use commercially reasonable efforts to procure private letter rulings from the Internal Revenue Service confirming that this treatment of ADFIT is consistent with, and does not violate, the normalization accounting rules of section 168(i)(9) of the Code, as amended, and treasury regulations Section 1.167(1)-1(h) (Private Letter Ruling). If a favorable private letter ruling is not obtained, then the latter above-described deferred tax liability adjustments for the newly-acquired assets shall be reversed, and joint applicants will be authorized to capture the difference and record on their respective books a recoverable regulatory asset in the dollar amount that has been under-recovered as a result of the treatment of ADFIT. For Sharyland Utilities, the recoverable regulatory asset will be recorded for the period beginning on the date Sharyland Utilities' revised WTS rate becomes effective and end on the date that new rates are adopted for Sharyland Utilities reflecting the reversal of such

deferred tax liability. For Oncor, the recoverable regulatory asset will be recorded for the period beginning on the date that Oncor's existing rates became effective and ending on the date that new rates are adopted for Oncor reflecting the reversal of such deferred tax liability. Oncor's rates and Sharyland Utilities' rates will be adjusted accordingly in future rate proceedings.

10. The Commission approves Oncor's recovery of the interim rate regulatory asset related to Sharyland Utilities' residential interim rates approved in Docket No. 45414, but not until the Commission approves the manner in which it will be recovered in a future proceeding.
11. The Commission approves the incorporation of Sharyland Utilities' EECRF and TCRF regulatory assets or liabilities into Oncor's EECRF and TCRF, respectively.
12. Sharyland Utilities is relieved from all reporting obligations related to the operation of the assets transferred from Sharyland Distribution & Transmission Services with respect to reports that are due on or after the date the proposed transaction closes, including, but not limited to, annual SAIDI and SAIFI reports.
13. For the first ten full years after closing of the proposed transaction, all Commission reliability and continuity of service reporting under 16 TAC §§ 25.52 and 25.81 will be reported separately for the current Oncor service territory and the legacy Sharyland Utilities service territory. For this ten-year period, Oncor will not be subject to enforcement action or penalty for the performance of the legacy Sharyland Utilities service territory. During this ten-year separate reporting period, Oncor and the Commission will together develop an appropriate process for integrated reporting for the two distribution systems going forward after the separate reporting period. In addition to the separate reports, Oncor shall also file combined reliability and continuity of service reporting under 16 TAC §§ 25.52 and 25.81 for the current Oncor service territory and legacy Sharyland Utilities service territory. Oncor and Commission Staff shall file a proposal for the integrated reporting at least one year before the end of the ten-year period, and request Commission approval of such plan.
14. The Commission approves Oncor's deployment of AMS in Sharyland Utilities' current service territories. Oncor shall submit a compliance filing outlining a schedule for AMS

deployment, by geographic division, within a reasonable time following the date of this Order.

15. Through December 31, 2019, Oncor shall continue to own and maintain those limited distribution lines that are on the customer's side of an existing meter at existing locations and are currently operated and maintained by Sharyland Utilities. After December 31, 2019, the customers who are served by those distribution lines will own and be responsible for maintaining those lines. Oncor shall provide notice to those customers 90 days before December 31, 2019.
16. Joint applicants shall hold a series of workshops and market calls to plan and coordinate the transition of Sharyland Utilities current retail electric delivery customers to Oncor under any applicable ERCOT Protocols, Guides, and Other Binding Documents.
17. All of Sharyland Utilities' current service delivery points shall be transitioned to Oncor on a scheduled meter read date for each ESID under the plan developed under Ordering Paragraph No. 16. For these new customers, Oncor will establish new ESIDs, assigning each new ESID to the corresponding Oncor rate class under the applicable tariff provisions. Such customers will be served by Oncor and be charged Oncor's standard retail-electric-delivery rates. Joint applicants shall provide affected REPs serving customers in Sharyland Utilities' service territories with reasonable advance notice of each of the anticipated closing date of the proposed transaction, any meetings of the workshop participants held, and the date that ESID transitions will begin.
18. Sharyland Utilities is granted a waiver of any requirements in the ERCOT Retail Market Guide that require Sharyland Utilities to maintain the ability to process cancels or rebills through a customer information system or through electronic data interchange market interfaces. Sharyland Utilities shall, however, maintain financial responsibility for cancelled or rebilled amounts that are required to be paid for the period prior to the time that retail electric delivery customers are transitioned to Oncor. Sharyland Utilities shall work with REPs, ERCOT, and retail-electric-delivery customers through the series of workshops discussed above to develop procedures to appropriately process such cancelled or rebilled amounts, as well as any associated resettlement of the ERCOT market.
19. Sharyland Utilities is exempted from the fall 2017 ERCOT flight test with the REPs.

20. Joint applicants will work with ERCOT to coordinate the transition of transmission assets, and develop reasonable timelines to ensure that ERCOT models and databases are updated to reflect proper ownership of the transitioned transmission assets. However, given that the proposed transaction is expected to close before ERCOT can update its Network Operations Model and possibly other ERCOT databases per timing requirements under the Protocols, ERCOT and joint applicants are granted a waiver of any timing requirements under the ERCOT Protocols related to updating ERCOT models, databases, and/or systems to reflect proper asset ownership resulting from the proposed transition.
21. The joint applicants shall provide a copy of the relevant private letter ruling to the Commission within three days of receiving the ruling. If a favorable private letter ruling is not obtained, the joint applicants' shall provide updated journal entries reflecting the amended accounting.
22. Oncor and Sharyland Utilities shall file notice in this docket within five days of the closing of the proposed transaction. If the proposed transaction has not closed by March 21, 2018, Oncor and Sharyland Utilities shall file notice in this docket that the transaction has not closed.
23. The joint applicants shall make a compliance filing in Docket No. 47649, identifying with specificity the assets that were transferred at the closing, including any relevant closing documents that identify the assets transferred.
24. Within 10 days of the closing of the proposed transaction, Oncor shall file a clean copy of the new Oncor EECRF tariff that will be applicable to all Oncor customers, including the former Sharyland Utilities customers, to be stamped "APPROVED" and retained by the Commission.
25. Within 10 days of the closing of the proposed transaction, Oncor shall file a clean copy of the new Oncor TCRF tariff that will be applicable to all Oncor customers, including the former Sharyland Utilities customers, to be stamped "APPROVED" and retained by the Commission.
26. If the proposed transaction has not closed by March 21, 2018, the authority granted in this Order expires and has no further effect.

27. Entry of this Order does not indicate the Commission's endorsement or approval of any principle or methodology that may underlie the agreement. Entry of this Order shall not be regarded as precedent as to the appropriateness of any principle or methodology underlying the agreement, except for the purpose of enforcing the agreement or this Order in any future proceeding.
28. All other motions or requests for entry of specific findings of fact and conclusions of law, and other requests for general or specific relief not expressly granted herein, are denied.

Signed at Austin, Texas the 13th day of October 2017.

PUBLIC UTILITY COMMISSION OF TEXAS



DEANN T. WALKER, CHAIRMAN



KENNETH W. ANDERSON, JR., COMMISSIONER



BRANDY MARTY MARQUEZ, COMMISSIONER