

2020 OCSC NEWSLETTER



2020 YEAR IN REVIEW ISSUE

This past year was a busy one for OCSC. This annual review highlights the significant events of 2020 that impacted OCSC and what's on the horizon next year.

OCSC Has a Productive 2020

This past year was another active year for the Steering Committee of Cities Served by Oncor (OCSC). On behalf of its member cities and their residents, OCSC participated in numerous proceedings before the Public Utility Commission of Texas (PUC) and the Texas Legislature. This Year in Review highlights the significant events in 2020 that impacted OCSC and previews what is on the horizon for the coming year. Looking ahead, 2021 will likely be another busy year for OCSC at the PUC, the Electric Reliability Council of Texas, the Texas Legislature, and the courts.



Oncor DCRF Settles; Approved by PUC

In early April 2020, electric utilities filed applications with the Public Utility Commission (PUC or Commission) to amend their Distribution Cost Recovery Factors (DCRFs). Utilities file DCRF proceedings to update the DCRF Rider in their tariff to include additional distribution invested capital placed in service since their last full base rate case.

Oncor Electric Delivery Company, LLC (Oncor or Company) filed an Application to Amend its DCRF on April 3, 2020, seeking to increase Oncor's total distribution rates by \$75,889,531 annually (an approximately

\$0.88 increase to the average residential customer's bill). This is Oncor's third DCRF filing. OCSC intervened in the proceeding, hired consultants to review the filing, conducted discovery, and negotiated with the Company. Ultimately, the parties settled, resolving all issues in the docket. Under the settlement, Oncor reduced its request by \$6 million to a total DCRF annual revenue requirement increase of \$69.9 million.

On July 31, 2020 the Commission approved the settlement. The agreed rates for Oncor's DCRF became effective September 1, 2020.

PUC Approves Oncor EECRF

Oncor made its annual Energy Efficiency Cost Recovery Factor (EECRF) filing on May 29, 2020, to adjust its rates during the following year to reflect changes in program costs and performance bonuses. EECRF filings also true-up any prior energy efficiency costs over- or under-collected, pursuant to the Public Utility Regulatory Act (PURA) and PUC rules. Because EECRF proceedings are limited in scope and review, they proceed on an expedited schedule.

OCSC intervened, hired a consultant to review the filing, conducted discovery, and discussed the filing with the Company. Ultimately, OCSC confirmed that the Company's request was reasonable. Therefore, OCSC agreed to the Company's requested EECRF increase as filed.

Pursuant to the agreement, Oncor will collect \$64,782,106 in 2021, consisting of the following components: (1) \$51,620,521 in energy efficiency program costs projected to be incurred in 2021; (2) \$14,249,500 for its 2019 performance bonus; (3) allocation of \$1,833,844 for the over-recovery of costs in 2019; (4) \$735,989 in estimated expenses relating to the Commission's EM&V costs; and (5) \$9,940 in rate case expenses from 2019.

At the September 10, 2020 open meeting, the PUC approved the settlement agreement. The settlement's rates will go into effect on March 1, 2021.

PUC Takes Emergency Action to Combat the Impact of COVID-19

On March 16, 2020, the PUC held an emergency open meeting to adopt measures to address the threats presented by the coronavirus disease (COVID-19). The commissioners designated the COVID-19 threat as a public emergency, giving the PUC the authority to suspend the rules for different filing requirements and deadlines. The agency announced that its staff would be telecommuting, suspended its filing requirements for hard copies, and took its open meetings virtual, allowing the public to participate telephonically. As of the end of 2020, most of staff is still telecommuting, the PUC is contemplating permanent changes to filing requirements, and its open meetings are still being conducted virtually via online streaming.

On, March 26, 2020, the PUC exercised its emergency authority to issue three orders, detailed below:

Exceptions to PUC Rules and Requirement for REPs to Offer DPPs

The first Order provided exceptions to existing PUC rules for electric, water, and sewer utilities, prohibiting the assessment of late fees and disconnection of customers when they cannot pay their utility bills, and required electric utilities to provide eligible customers with deferred payment plans (DPPs).

Accounting Order, Establishing a Regulatory Asset

The Commission also approved an accounting order, authorizing an accounting mechanism and subsequent process through which regulated utilities may seek future recovery of expenses resulting from the effects of COVID-19. These expenses, considered "regulatory assets" can include non-payment of customer bills, as well as other costs, such as the cost to have facilities cleaned and disinfected. In future proceedings, the Commission will consider whether each utility's request for recovery of these regulatory assets is reasonable and necessary. The Commission will

also consider other issues at a future proceeding, such as the appropriate period of recovery for approved amounts.

The COVID-19 Electricity Relief Program

The third Order established the COVID-19 Electricity Relief Program (ERP), which is a mechanism that was designed to protect Texas citizens impacted by COVID 19 and provide certainty to the electric utilities and retail electric providers for recovery of unpaid utility bills.

The ERP helped customers that have been impacted by COVID-19 pay their past-due electric bills, and prevented utilities from disconnecting such customers. The ERP applied only to residential customers and only to those areas of the state with retail electric deregulation.

The ERP was originally scheduled to end July 17, but at its July 2 open meeting, the PUC directed Commission Staff to draft an order to continue the ERP until August 31.

The ERP is funded by a special charge of 0.033 cents per kilowatt hour added to electricity bills. That works out to about 40 cents for residential customers who use 1,200 kilowatt hours of electricity per month. According to the PUC, the program was "intended to help unemployed customers . . . by providing protection from disconnections for non-payment and offering bill payment assistance."

Nearly 595,000 were shielded from utility disconnections because of the program. Since March, it provided more than \$30 million in assistance for bills.

On October 1, 2020, the ERP ended, exposing protected residents to the potential for disconnections and late fees from utilities.

At the August 27, 2020 open meeting, the Commission issued an order requiring Retail Electric Providers and Transmission and Distribution Utilities to file a final ERP report to the Commission on or before January 15, 2021.

WETT STM Settlement Approved by PUC

On February 24, 2020, Wind Energy Transmission Texas, LLC (WETT), AxInfra US LP (AxInfra), Hotspur HoldCo 1 LLC (Hotspur 1), Hotspur HoldCo 2 LLC (Hotspur 2), and 730 Hotspur, LLC (730 Hotspur) (together Applicants) filed an application with the Public Utility Commission for approval of a sales transaction (STM) that would result in the transfer of ownership and control of WETT to AxInfra, an investment fund managed by Axium Infrastructure US, Inc. (Axium US) (Docket No. 50584).

OCSC intervened in the proceeding, because the proceeding impacts service in OCSC's member cities. Rates for all transmission providers are socialized (meaning that ratepayers will pay a portion of all transmission rates approved for all transmission providers). Additionally, the bankruptcy of Energy Future Holdings Corp., and three previous Oncor STMs, teach the importance of corporate structure, debt levels, and ring fencing in protecting consumers.

Under the application, AxInfra will ultimately control WETT. 730 Hotspur will acquire a non-controlling minority interest in Hotspur SPC, an Axium subsidiary that will have an upstream, indirect ownership interest in WETT.

The participating parties (the Applicant, TIEC, OCSC, and Commission Staff) filed a unanimous Stipulation, avoiding the June hearing on the merits.

In prior cases involving change of ownership—most notably the Oncor STMs involving Hunt and NextEra—there were serious debates over whether an application had to demonstrate meaningful savings or other benefits to customers to establish a public interest finding. WETT alleged modest savings in administrative costs by proposing a reduction in the size of its Board of Directors from five to three members—a mistake in governance that would nullify insignificant savings. The Stipulation corrects that mistake by requiring a five-member Board with two independent directors.

Other major concessions made by the Applicants to win the support of the parties include:

1. Dividend Restriction — WETT will not pay dividends, except for contractual tax payments, at any time that WETT's debt rating is below (BBB) or the equivalent with any one of the credit agencies rating WETT unless approved by the two disinterested board members of WETT Holdings;
2. Goodwill, Transaction & Transition Costs — WETT will not seek to include any transaction acquisition premium or Goodwill, transaction or transition costs in rates;
3. Capital Expenditures — Company will maintain capital expenditures consistent with the existing five-year plan; and
4. Stand Alone Credit — Owners agree to obtain stand-alone credit rating from at least one of Moody's, Fitch, or Standard & Poor's by the earlier of: (a) WETT's next base rate case, or (b) December 31, 2022.

On July 24, 2020 the Commission approved the Stipulation and issued its Final Order, finding that the transaction is in the public interest.

PUC Compares Electricity Utility Distribution Spending and Reliability

Each year, the Public Utility Commission releases a report tracking the reliability-related spending of investor-owned electric utilities (IOUs) providing distribution service across the state of Texas. This year's report covers the ten-year period from 2010-2019, providing data on (1) distribution system spending; (2) all investor-owned electric distribution utilities serving customers in Texas; (3) variations in spending and reliability data in graphical format; and (4) outage comparisons between utilities. Outage comparisons use the System Average Interruption Duration Index (SAIDI) and System Average Interruption Frequency Index (SAIFI) calculations to show the duration and frequency of interruptions.

Oncor's data is affected by its acquisition of Sharyland's distribution system in December 2016. Oncor is tracking SAIDI and SAIFI separately for the former Sharyland territory for ten years, whereas, starting in 2017, the vegetation management data is combined.

The size and operating environments of the IOUs in Texas are very diverse, which can make comparisons between IOUs misleading without careful consideration of these differences. Because of the range in IOU size, climate, topography, and other factors, an apples to apples comparison of IOU spending is not necessarily appropriate.

However, by comparing the cost per customer for each of the categories of IOU spending, we have some standards to gauge Oncor's spending.

In 2019, Oncor spent more than ever before on capital additions (around \$900 million) and Operations and Maintenance (O&M) (around \$250 million). Oncor's capital additions and O&M spending has climbed about 10-20% each year over the past 10 years.

Oncor's vegetation management (VM) spending rose slightly in 2019 compared to the previous two years, and is slightly above average for the past seven years. However, a large percentage of its VM spending is attributable to storms.

Oncor's SAIDI and SAIFI data reflects a rise in duration and frequency of interruptions in service that are attributable to major events. Further, over the last ten years, Oncor's percentage of SAIDI and SAIFI attributable to major events is much higher than other utilities.

Compared to other Texas Utilities, Oncor's SAIDI and SAIFI in roughly average.

The Commission's report can be found at:

http://interchange.puc.texas.gov/Documents/46735_26_1089530.PDF



2021 Legislative Session on the Horizon

The gavel drops, opening the 87th Texas Legislative Session on January 12, 2021. This session is sure to look different than years past. There will likely be occupancy limits and other limitations on how committee meetings will take place. Additionally, this session will be one of the toughest legislative sessions in recent years since members will have to address billions of dollars in shortfalls to the state budget, redraw the state's political maps, and navigate issues like health care and public education that have been a focus during the pandemic.

Since Lawmakers began pre-filing bills on Monday, November 9, 2020, over 750 bills have already been filed in the House and over 200 bills have been filed in the Senate – including a dozen or so relating to energy and ratepayer issues. We have our eye on many of these bills, and will keep you apprised as they move through the legislative process.

Below, we listed several bills on our watch list, and explain briefly their purpose. However, keep in mind that inclusion on this list implies neither our support nor opposition. **We highlight these bills for informational purposes only.**

- **House Bill 427**, by state Rep. Ken King, would impose an additional \$200 fee for the registration of electric vehicles as well as a \$100 fee for the registration of hybrid vehicles.
- **House Bill 433**, also by state Rep. King, would impose a 1-cent per-kilowatt-hour tax on each kilowatt of electricity generated in Texas from any source other than natural gas.
- **House Resolution 9**, by state Rep. Richard Raymond, would direct the Texas Legislature to urge the U.S. Congress to order a cost-benefit analysis regarding the risks of climate change nationwide. The analysis should include a discussion of appropriate measures to address those risks.
- **House Bill 685**, by state Rep. Gary VanDeaver, would create a critical care program for veterinarians that depend upon electricity to maintain critical medical equipment for animals under their care. The Public Utility Commission would create disconnection protections for such veterinarian customers.
- **Senate Bill 170**, by state Sen. Cesar Blanco, calls for a study of the feasibility of expanding the state's renewable energy goals such that half the state's installed generating capacity by 2030 will come from renewable sources, and 100 percent of it would come from renewable sources by 2050.
- **Senate Bill 182**, by state Sen. Charles Schwertner, requires the Public Utility Commission to conduct a five-year look-back analysis of rates charged by municipal electric utilities. If the municipal rates are 10 percent higher than the five-year average of competitive rates paid in a similarly situated area with electric competition, then the municipal utility must transition to deregulation within one year.

We will provide updates as the as the 87th Legislature kicks off at the beginning of 2021.

Public Utility Commission Prepares for 2021 Legislative Session

The Public Utility Commission (PUC) has acknowledged that this is not the year for utility issues to take center stage at the Legislative Session, so it seems their expectations are low for any significant changes in 2021. In the PUC's Biennial Report to the 87th Legislature (filed on December 10, 2020 in Docket No. 50475), the PUC provides a report on significant actions taken over the past two years, describes emerging issues, and summarizes its recommendations to the Legislature for potential water, electric, and telecommunications legislation. Based on this report and comments made by the Commissioners at the open meeting on December 17, 2020, the PUC recommends legislation on the following:

- **Sale of Electricity at Charging Stations:** As the cost of electric vehicles has dropped, more consumers have purchased them, with sales rates doubling year-over-year. With increased adoption of electric vehicles over fuel-based vehicles, there is a growing need for public-use charging stations

to be located off of highways and in places such as large retail shopping centers or garages near office buildings. The sale of electricity through these charging stations could potentially bring the companies owning them under the definition of an "electric utility." The PUC proposes that the Legislature clarify that the use of an electric vehicle charging station is not an electric utility or a retail electric provider.

- **Filing Fees:** The Commission is requesting the statutory authority to charge fees to certain parties that make paper filings with the PUC at a level not to exceed the costs incurred by the agency.

We will provide updates on how the 87th Legislature acts on the PUC's recommendations in 2021.



2021 OCSC Meetings

March 4
May 6
August 12
December 9

2021 OCSC Officers

Paige Mims—Chair
Don Knight—Vice Chair
Adrienne Lothery—Secretary



For more questions or concerns regarding any OCSC matter or communication, please contact the following representative, who will be happy to provide assistance:

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