

# Memorandum



CITY OF DALLAS

DATE August 2, 2017

TO Honorable Mayor and Members of the City Council

SUBJECT **Oncor Rates**

On Monday, August 7, 2017, Nick Fehrenbach and the Office of Financial Services will brief the Government Performance and Financial Management Committee on Oncor Rates.

Please let me know if you have any questions or need additional information.

A handwritten signature in cursive script that reads "M. Elizabeth Reich".

M. Elizabeth Reich  
Chief Financial Officer

c: T.C. Broadnax, City Manager  
Larry Casto, City Attorney  
Craig D. Kinton, City Auditor  
Rosa A. Rios, City Secretary  
Daniel F. Solis, Administrative Judge  
Kimberly Bizar Tolbert, Chief of Staff to the City Manager  
Majed A. Al-Ghafry, Assistant City Manager

Raquel Favela, Chief of Economic Development & Neighborhood Services  
Jo M. (Jody) Puckett, P.E., Assistant City Manager (Interim)  
Jon Fortune, Assistant City Manager  
Joey Zapata, Assistant City Manager  
Nadia Chandler Hardy, Chief of Community Services  
Theresa O'Donnell, Chief of Resilience  
Directors and Assistant Directors

# Oncor Rates

**Government Performance & Financial  
Management Committee  
August 7, 2017**

**Nick Fehrenbach  
Manager of Regulatory Affairs  
Office of Financial Services  
City of Dallas**



# Presentation Overview

- Purpose
- Background
- Current filing
- Options for City Council consideration
- City Manager's Recommendation



# Purpose

- Update committee on the Oncor Electric Delivery Company, LLC (Oncor)  
“Transmission and Distribution” rate filing
- Consider options and review City Manager’s recommendation



# Background

- Oncor is a transmission and distribution (T&D) utility operating under:
  - Certificate of Convenience and Necessity from Public Utility Commission of Texas (PUCT)
    - Authorizes Oncor to provide T&D service
    - Defines geographic service area

# Background (continued)

- Oncor's Franchise agreement from City of Dallas
  - Authorizes use of public streets and rights-of-ways to provide T&D service



# Background (continued)

- Oncor owns, operates, and maintains T&D system within City of Dallas
  - Provides wholesale T&D service to Retail Electric Providers on a non-discriminatory basis
- City of Dallas has original jurisdiction over rates charged by Oncor within City
  - PUCT has appellate jurisdiction over cities such as Dallas

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# Background (continued)

- PURA Section 36.151 provides that if a regulatory authority, such as the City of Dallas, on its own motion, after reasonable notice and hearing, finds that the existing rates of an electric utility for a service are unreasonable the regulatory authority shall enter an order establishing the just and reasonable rates to be observed thereafter

# Current Filing

- April 27, 2016-City Council by resolution No.16-0692 ordered Oncor to show cause why its rates should not be reduced
  - PUCT had recently approved sale of Oncor to affiliates of Hunt Consolidated
    - Oncor rates included over \$200 million in Federal Income tax
    - Ownership structure of new parent, to greatly reduce income tax liability

# Current Filing (continued)

- May 2016-sale of Oncor to the Hunt Affiliates fell through and Hunt requested the PUCT order approving the transaction be vacated
  - With future ownership of Oncor uncertain, the Committee of Cities Served by Oncor (Steering Committee) suspended the show cause order until further notice

# Current Filing (continued)

- October 31, 2016-NextEra filed with the PUCT for approval to acquire Oncor
  - In its filing with the PUCT, NextEra indicated it would file a full rate case with cities and the PUCT on or before July 1, 2017



# Current Filing (continued)

- Based on the NextEra filing and information obtained from Oncor, the Steering Committee determined that it was in the best interest of ratepayers to file the rate case sooner than later
  - Oncor had accrued close to \$900 million in regulatory assets related to storm damage, pensions, and smart meters

# Current Filing (continued)

- Oncor's Return On Equity (ROE) is higher than other utilities
  - Oncor ROE currently at 10.25%
  - PUCT set ROE of 9.6% in recent cases for other electric utilities



# Current Filing (continued)

- November 17, 2016-Steering Committee notified Oncor to proceed with show cause proceeding previously ordered by cities
  - PURA permits utilities 120 days to complete the filing
  - Cities requested a test year ending December 31, 2016

# Current Filing (continued)

- March 17, 2017-Oncor filed an application to change rates with cities and the PUCT
  - Requested to increase rates by \$317 million annually
    - 7.5 percent increase over current rates
  - Average residential bill would increase by \$6.68 per month (11.8 percent)



# Current Filing (continued)

- Oncor requested that the new rates become effective April 21, 2017
  - April 12, 2017-City by resolution suspended the effective date for an additional 90 days (maximum allowed by PURA)
    - Staff needed extra time to fully review the filing and determine if rates were justified

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# Current Filing (continued)

- City worked with the Steering Committee to review the rate request
  - Steering Committee hired consultants to review filing
  - The consultants identified numerous unreasonable expenses and proposed significant reductions to Oncor's requested rates



# Current Filing (continued)

- April 13, 2017-PUCT denied NextEra's request to purchase Oncor
  - This is the second purchase of Oncor that has been denied by the PUCT
  - Oncor future ownership is uncertain



# Current Filing (continued)

- Procedural schedule agreed to by the parties provided for intervenor testimony to be filed June 30, 2017 and the hearing on the merits to begin on July 31, 2017
  - June 2, 2017-Oncor filed an unopposed motion to abate the procedural schedule
    - Parties engaged in settlement negotiations
    - Abatement granted by SOAH Order 7

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# Current Filing (continued)

- The Steering Committee recommends that all member cities deny the Oncor rate request
  - Oncor may appeal the denial to the PUCT

# Options for City Council Consideration

1. Approve rates originally requested by Oncor
  - Overall increase of \$317 million (7.5 percent)
  - Average residential bill to increase by \$6.68 per month (11.8 percent)
2. Deny rate request
  - Steering Committee recommends cities deny the rate request
  - Oncor will appeal denial to PUCT

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# Options for City Council Consideration (continued)

3. Set rates at some other level
  - Oncor may appeal new rates to PUCT
4. Take no action
  - If no action by August 19, 2017, rates as filed would be deemed approved by operation of law

# City Manager's Recommendation

- City Manager recommends approval of Option No. 2, deny rates as requested by Oncor
  - Oncor will appeal denial to PUCT





# Next Steps

- August 9, 2017-adoption of Ordinance denying rates as requested by Oncor
- If no action by August 19, 2017 rates as requested by Oncor will be deemed approved by operation of law