

Memorandum



CITY OF DALLAS

DATE April 15, 2011

TO Honorable Mayor and Members of the City Council

SUBJECT Oncor Electric Delivery Company, LLC Rate Filing- Proposed Settlement Agreement

On Wednesday, April 20, 2011 you will be briefed on the Oncor Electric Delivery Company, LLC Rate Filing- Proposed Settlement Agreement. The presentation material is attached for your review.

If you have questions or need additional information, please let me know

A handwritten signature in black ink that reads "Jeanne Chipperfield".

Jeanne Chipperfield
Chief Financial Officer

Attachment

c: Mary K. Suhm, City Manager
Thomas P. Perkins, Jr., City Attorney
Deborah Watkins, City Secretary
Craig Kinton, City Auditor
Judge C. Victor Lander, Administrative Judge
Ryan S. Evans, First Assistant City Manager
A.C. Gonzalez, Assistant City Manager
Jill A. Jordan, P.E., Assistant City Manager
Forest E. Turner, Assistant City Manager
Frank Libro, Public Information Officer
Helena Stevens-Thompson, Assistant to the City Manager - Council Office
Jack Ireland, Director, Financial Services

Oncor Electric Delivery Company, LLC Rate Filing- Proposed Settlement Agreement

City Council Briefing
April 20, 2011



Purpose

- Provide the City Council with an overview of the Oncor Electric Delivery Company, LLC (Oncor) rate filing, the proposed settlement agreement and the City Manager's recommendation
 - Timeline
 - Overview of Rate Filing
 - Steering Committee of Cities Served by Oncor
 - Proposed Settlement Agreement
 - Next Steps and Recommendation

Timeline

- On Jan 7, Oncor filed rate request with City of Dallas, Public Utility Commission of Texas (PUC) and all other cities on their system who retain jurisdiction
- Oncor's requested effective date for new rates was Feb 14, 2011
 - Municipality may suspend effective date for an additional 90 days

Timeline (cont.)

- The City Council by Resolution officially suspended the rate request on Jan 26, 2011
 - The new effective date is May 15, 2011
 - Resolution No. 11-0306
- Council must take additional action prior to May 15 to approve or deny rate request or it will be deemed approved by operation of law
- Deadline for PUC to take action July 31, 2011
 - PUC has jurisdiction for environs (unincorporated areas) and for cities that have ceded their jurisdiction

Overview of Rate Filing

- Oncor has requested overall rate increase of 16.2% above rates in effect at end of test year (June 30, 2010) in order to generate additional \$441,407,595 which includes:
 - An increase of \$352,787,050 over existing rates, and
 - Adjustments approved or pending with PUC after June 30 for Transmission Cost of Service (TCOS) and Transmission Cost Recovery Factor (TCRF)

Overview of Rate Filing (cont.)

- Residential Rates to increase 16.5%
 - Average Residential customer increase \$4.00/month
- Non-Residential Rates to increase from 4.9% to 23.5% depending on type of service, voltage and annual demand
- Street Lighting Rates to increase 25.9%
- Vegetation Management (Tree Trimming)
 - Oncor to move from a reactive strategy to a cyclical program
 - All circuits trimmed every 5 years
 - Increase costs from \$26m in test year to \$61m

Overview of Rate Filing (cont.)

- Factors driving need to increase rates per Oncor
 - Significant new investment in infrastructure
 - Decline in customer growth
 - Decline in consumption per customer
- Oncor is also requesting an increase in authorized rate of return on equity from 10.25% approved in last case to 11.25%

Steering Committee of Cities Served by Oncor

- To assist cities and coordinate efforts in matters before PUC relating to Oncor (formerly TXU), Steering Committee formed in late 1980s
 - Avoids duplication of effort by all affected cities
 - Currently 146 member cities including Dallas
 - Funded by an annual assessment to member cities on a per capita basis
 - Dallas is a member of executive committee which governs Steering Committee
- Steering Committee has represented City of Dallas in all electric rate cases since 1990

Steering Committee (cont.)

- Steering Committee fully investigated Oncor's Jan 7 rate filing
 - Hired consultants to look at technical issues of case and provide expert testimony
 - Retained legal counsel to review legal aspects of case, conduct depositions on Oncor witnesses and prepare for hearing on merits
 - After fully investigating the case, Steering Committee entered into settlement discussion with Oncor and the other interveners

Proposed Settlement Agreement

- Settlement of all issues was reached on April 11, 2011
 - A unanimous settlement of all the parties in the case including Oncor, cities, PUC staff, industrial consumers, State of Texas and others
 - Settlement subject to approval by the governing bodies of the settling cities and the PUC for environs and cities that have ceded jurisdiction

Proposed Settlement Agreement (cont.)

- Base Rate Revenue Increase – total base rate revenue requirement increase of \$136,722,048 instead of \$352,787,050 originally requested
 - 6.1% increase over current rates
- Return on Equity- maintain current 10.25% ROE
 - Same as ROE in prior case
- Rate Freeze - Oncor will not file a general base rate case before July 1, 2013
 - Oncor may file for interim rate adjustments as allowed by law
 - City or PUC could initiate a rate case if evidence of over-earning by Oncor
- Prudence Finding- Oncor's investments through June 30, 2010 determined to be prudent and includable in rate base

Proposed Settlement Agreement (cont.)

Rate*	Oncor Requested	Increase per Settlement
Overall Rate Increase	16.2% \$352.8 M Rev.	6.1% \$136.7 M Rev.
Residential Rate Increase	16.5%	6.2%
Impact on average Res. Customer	\$4.00/month	\$1.50/month

*rates are for Transmission and Distribution charges only and do not include cost of energy

Proposed Settlement Agreement (cont.)

Non-Residential Rates*	Oncor Requested	Increase per Settlement
Secondary voltage \leq 10kW	14.7%	4.7%
Secondary voltage $>$ 10kW	18.3%	7.4%
Primary voltage \leq 10kW	25.8%	13.1%
Primary voltage $>$ 10kW	8.9%	(0.4%)

*rates are for Transmission and Distribution charges only and do not include cost of energy

Proposed Settlement Agreement (cont.)

Non-Residential Rates (cont.)*	Oncor Requested	Increase per Settlement
Transmission voltage rate	12.8%	(1.1%)
Street Lighting Rates	25.9%	13.8%
Return on Equity	Increase from 10.25% to 11.25%	No Change in ROE

*rates are for Transmission and Distribution charges only and do not include cost of energy

Proposed Settlement Agreement (cont.)

- Prospective Franchise Fees- Rate for Dallas will increase from .2622¢/kWh to .2753¢/kWh
 - Contractual amount per the Dallas Franchise
 - Consistent with the opinion of the District Court in the Docket 35717 appeal
 - Consistent with recent PUC decision in the Centerpoint Energy Houston Electric, LLC rate case (Docket 38339)
 - FYE 2011 Revenue Impact of \$520k
 - FYE 2012 Revenue Impact of \$2.2 Million

Proposed Settlement Agreement (cont.)

- Retroactive Franchise Fees- within 60 days of final order in this case Oncor will pay the City the incrementally higher fees back to the effective date of PUC Docket 35717 denial of those fees
 - Revenue impact to Dallas \$4.3 Million
 - Amount would be surcharged with cities' rate case expense over next 3 years to customers

Proposed Settlement Agreement (cont.)

■ Effective Date of Rates

□ Oncor will implement the rates in phases

- An increase of \$93.7 Million will become effective July 1, 2011
- Balance of approved increase (\$43 Million) to become effective Jan 1, 2012
- Surcharge to recover cities rate case expense and retroactive franchise fees to begin Jan 1, 2012

Proposed Settlement Agreement (cont.)

- Oncor to continue current practice of Reactive Vegetation Management
 - Due to settlement, PUC has not ruled on the prudence of cyclical vegetation management

Proposed Settlement Agreement Recap.

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Primary voltage $>$ 10kW	8.9%	(0.4%)
Transmission voltage rate	12.8%	(1.1%)
Street Lighting Rates	25.9%	13.8%
Return on Equity	Increase from 10.25% to 11.25%	No Change in ROE
Vegetation Management	Cyclical	Reactive
Franchise Fee Rate	\$0.002622/kWh	\$0.002753/kWh
Rate Freeze	None	2 years

Next Steps and Recommendation

- April 27 – City Council adoption of an ordinance setting rates to be charged by Oncor
 - Other cities in the Oncor Service Area will be adopting similar ordinances
 - The PUC will issue an order setting rates in the environs
- Council must take final action prior to May 15 or the rates Oncor originally requested would be deemed approved
- **Recommendation – adopt rate ordinance consistent with the unanimous settlement agreement**