Public Utility Commission of Texas

Memorandum

TO: Chairman Donna L. Nelson
Commissioner Brandy D. Marty

FROM: Commissioner Kenneth W. Anderson, Jr.

DATE: October 16, 2014

RE: **Open Meeting of October 17, 2014, Agenda Item Nos. 15 and 16**

Agenda Item No. 15; Project No. 43512 – *Staff Investigation of Storm-Related Electric Service Outages in October 2014*

Agenda Item No. 16; Project No. 42079 – *Oncor's Response to North Texas Storms of October 2 and October 6, 2014*

Late afternoon of October 2nd and early on the morning of October 6, 2014, severe storms swept through much of the areas served by Oncor Electric Delivery Company LLC (Oncor), the transmission and distribution utility granted an electric distribution monopoly under Texas law.[1] These storms resulted in widespread outages of relatively long duration.[2] Concerns about the scope and duration of these outages led me to request that the staff of the Public Utility Commission of Texas (Staff) gather data concerning Oncor's distribution system capital expenditures and operation and maintenance spending over the last several years. Subsequently, I requested that my Policy Advisor, Rich Wakeland, analyze and organize the data. This work by Staff and Mr. Wakeland is summarized in the table below and set out in more detail in Appendix A attached to this memorandum.[3] The third column in the table below sets out the percentage increase or (decrease) in investment for each corresponding expenditure category.

Charts Found in Appendix A

Oncor historical spending (Charts 1 & 2) and inflation adjusted spending (Charts 3 & 4)

Chart 1	Oncor's Distribution Infrastructure Capital Expenditure 2005-2013	(4.6%)
Chart 2	Oncor's Distribution Maintenance Expenditure 2005-2013	(24.2%)
Chart 3	Oncor's Distribution Infrastructure Inflation Adjusted Capital Expenditure	(19.5%)
Chart 4	Oncor's Distribution Maintenance Inflation Adjusted Expenditure	(36.5%)

[1] Under state law, a distribution utility has an obligation to provide continuous and adequate service. Public Utility Regulatory Act, TEX. UTIL. CODE ANN. § 37.151 (Vernon's 2008 & Supp.) (PURA).

[2] Some outages lasted over 100 hours, and some customers suffered repeat outages from both storms. Dallas Morning News, October 3, 2014 1740 update. (available at http://www.dallasnews.com/news/metro/20141003-storms-leave-250000-across-dallas-fort-worth-without-power.ece). According to statements made by Oncor spokesmen, October 2nd's storm was among the 20 worst experienced by Oncor, which still raises questions around the magnitude and duration of the outages of the other 19 severe storms in question. *Id*; *See* also, Project No. 43512, *Staff Investigation of Storm-Related Electric Service Outages in October 2014*, Staff Memorandum (Oct. 15, 2014).

[3] I wish to express my thanks to both Staff and Mr. Wakeland for their hard work on this project.

Charts 1 – 4 Oncor distribution spending on a per customer basis (Charts 5-8)

Chart 5	Oncor's Distribution Infrastructure Per Customer Capital Expenditure	(24.1%)
Chart 6	Oncor's Distribution Maintenance Per Customer Expenditure	(30.3%)
Chart 7	Oncor's Inflation Adjusted Distribution Infrastructure Per Customer Capital Expenditure	(36.7%)
Chart 8	Oncor's Inflation Adjusted Distribution Maintenance Per Customer Expenditure	(41.8%)

Much to my surprise, it appears as though Oncor has continuously and systematically reduced its investment in, and operational maintenance spending on, its distribution system infrastructure.[4] From 2005 to 2013, a nine year period, Oncor's capital expenditures on its distribution system dropped 4.6%[5], while its spending on distribution maintenance declined a problematic 24.2%.[6] Equally surprising is that these reductions in distribution investment and maintenance spending occurred while Oncor's account base was *increasing* from 2,996,718 customers to 3,266,126 customers, a 9.0% increase.[7] By comparison, during the same time period CenterPoint Energy Houston Electric, LLC (CenterPoint) *increased* its distribution capital expenditures by 21.2% and *increased* its distribution maintenance spending 74.8% (by trend line, excluding meters).[8] Particularly vexing is that two years ago, in response to concerns expressed both by this Commissioner and Chairman Nelson, Oncor asserted that it was committed to the reliability of its feeder lines in a letter sent to the Commission on March 23, 2012.[9] Recent performance and the historical information set out in Appendix A seem to indicate otherwise.

These findings raise obvious questions, both Oncor specific as well as across all utilities.

ONCOR SPECIFIC QUESTIONS:

First, could some of the storm damage have been avoided or at least mitigated, and the resulting restoration times shortened, had Oncor not reduced its investment and maintenance in its distribution system? Related to the broader question of Oncor's year-to-year spending on

[4] Charts 1 and 2 show how much money Oncor spent in each year from 2005 – 2013 on distribution system capital expenditures (Chart 1) and distribution maintenance (Chart 2), excluding amounts spent on the deployment of advanced meters because the deployment was paid for by a customer surcharge.
[5] 4.6% is the trend line change between 2005 and 2013 spending.
[6] It should be remembered that these figures show actual decline (by trend line); when adjusted for inflation the picture becomes even more questionable. Adjusted for inflation distribution capital investment and maintenance spending declined 19.5% and 36.5%, respectively (Charts 3 & 4, by trend line), and inflation reduces Oncor's per customer capital expenditures by 36.7% and its per customer maintenance spending 41.8% (Charts 7 & 8, by trend line). *See* Appendix A.
[7] This is based upon meter account data; *see* Appendix A.
[8] *See* data in Appendix A.
[9] Docket No. 40217, *Agreed Notice of Violation and Settlement Agreement Relating to Oncor Electric Delivery Company's Violation of PURA §38.005 and PUC SUBST. R. §25.52, Concerning Reliability and Continuity of Service* (Mar. 23, 2012) (attached as Appendix B to this memorandum).

distribution management is what is the yearly level of vegetation management spending?[10] Second, the contrast between customer growth and distribution spending raises questions about Oncor's distribution spending priorities. Have "new customers" been given an undue preference? For example, have newer developing neighborhoods been given preference over more mature neighborhoods when allocating increasingly scarce investment resources?[11] Third, has Oncor been distributing too much internally generated cash to its upstream affiliates, whether in the form of dividends or other payments such as those under its tax sharing agreement with Energy Future Holdings.[12] This is not a criticism or even a suggestion that Oncor's management have ignored either the letter or spirt of the "ring fence."[13] I have absolutely no reason to believe any such action has occurred or will occur. It is simply a question of whether the money now being paid to its equity holders would be put to better use maintaining and upgrading Oncor's distribution system. Staff has opened a new project to investigate this month's Oncor service outages, which may be the proper venue to examine the foregoing questions, at least insofar as they relate to Oncor.[14]

On final note, the concerns I am raising in this memorandum should in no way be seen as a lack of confidence in Oncor or its management team. As a general proposition I have confidence in Oncor's management, I am only raising questions about their relative investment priorities in recent years; priorities that may need to change.

UTILITY DISTRIBUTION INVESTMENT AND MAINTENANCE SPENDING GENERALLY

The Commission has spent a great deal of time and effort on investment in the State's electric transmission system over the last five or six years, as well as other issues. We have spent comparatively less time on the adequacy and reliability of utility distribution systems, even though this has always been where most of the customer service interruptions occur. It is time for that to change. Although one of the questions that I am asking Staff to examine in Project No. 43512 is the adequacy of Oncor's vegetation management program, experience has shown that this problem is by no means an issue unique to Oncor. The adequacy of utility vegetation management programs seems to be a reoccurring issue in Texas. As recently as 2010, a utility asked to implement a vegetation management rider in order to expedite what had been a backlog in their program.[15] This needs to change. As a study requested by the Commission pointed out, vegetation management, better known as "tree-trimming", is one the most cost-effective ways to

[10] This is an issue that goes beyond Oncor as will be discussed later in this memorandum.
[11] To be fair, Oncor has certain legal obligations related to "its obligation to serve" with respect to how soon it must provide new service to certain customer classes. P.U.C. SUBST. R. 25.22.
[12] In 2008, 2009, 2010, 2011, 2012 and 2013 Oncor made upstream equity distributions of $330 million, $272 million, $211 million, $145 million, $225 million and $ 310 million, respectively. *See* Oncor's *Form 10-K Annual Report Pursuant to Section 13 or 15(d) of the Securities Act of 1934 on Form 10-K* (for fiscal years 2008, 2009, 2010, 2011, 2012, and 2013, respectively).
[13] *See Joint Report and Application of Oncor Electric Delivery Company and Texas Energy Future Holdings Limited Partnership Pursuant to PURA § 14.101*, Docket No. 34077, Order on Rehearing (Apr. 24, 2008).
[14] *Staff Investigation of Storm-Related Electric Service Outages in October 2014*, Project No. 43512.
[15] *Application of Southwestern Electric Power Company for Authority to Change Rates*, Order (Apr. 16, 2010).

enhance distribution reliability.[16] I realize that tree-trimming is always controversial and that many customers value their landscaping, but it is the single most cost-effective way to minimize weather related outages on the distribution system.

The Commission is now collecting annually utility vegetation management spending levels pursuant to a recently adopted rule in order to monitor and detect unusual spending patterns before they become a problem.[17] However, I believe that the Commission should direct Staff to expand this program to monitor, and on an annual basis report to the Commission, all utility distribution investment and maintenance spending in order to detect adverse trends. Historically, the Commission relied on rate cases to evaluate the prudence of utility spending and investment. As the Oncor data seem to suggest, this approach may be inadequate.

One final, but important point: nothing in this memorandum is intended nor should be construed as criticism of the hard work displayed by Oncor's management, employees and mutual assistance workers under very challenging circumstances to restore service once the first storm had passed. I believe that all concerned worked with diligence to restore service.

I look forward to discussing all of these issues with you at the open meeting.

[16] *Cost-Benefit Analysis of the Deployment of Utility Infrastructure Upgrades and Storm Hardening Programs*, Final Report of Quanta Technology at 35 (Mar. 4, 2009) (prepared for the Public Utility Commission of Texas in connection with Project No. 36375).
[17] *See* P.U.C. SUBST. R. 25.96.

Appendix A

Chart 1.

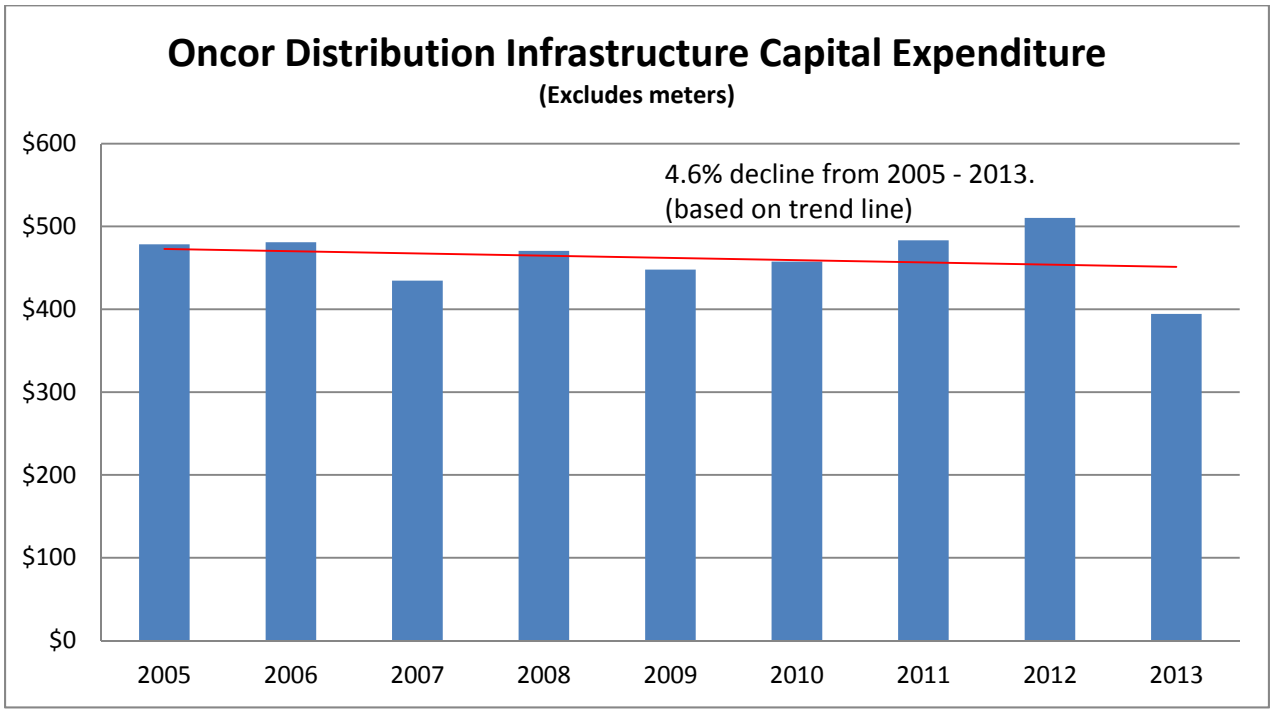


Chart 2.

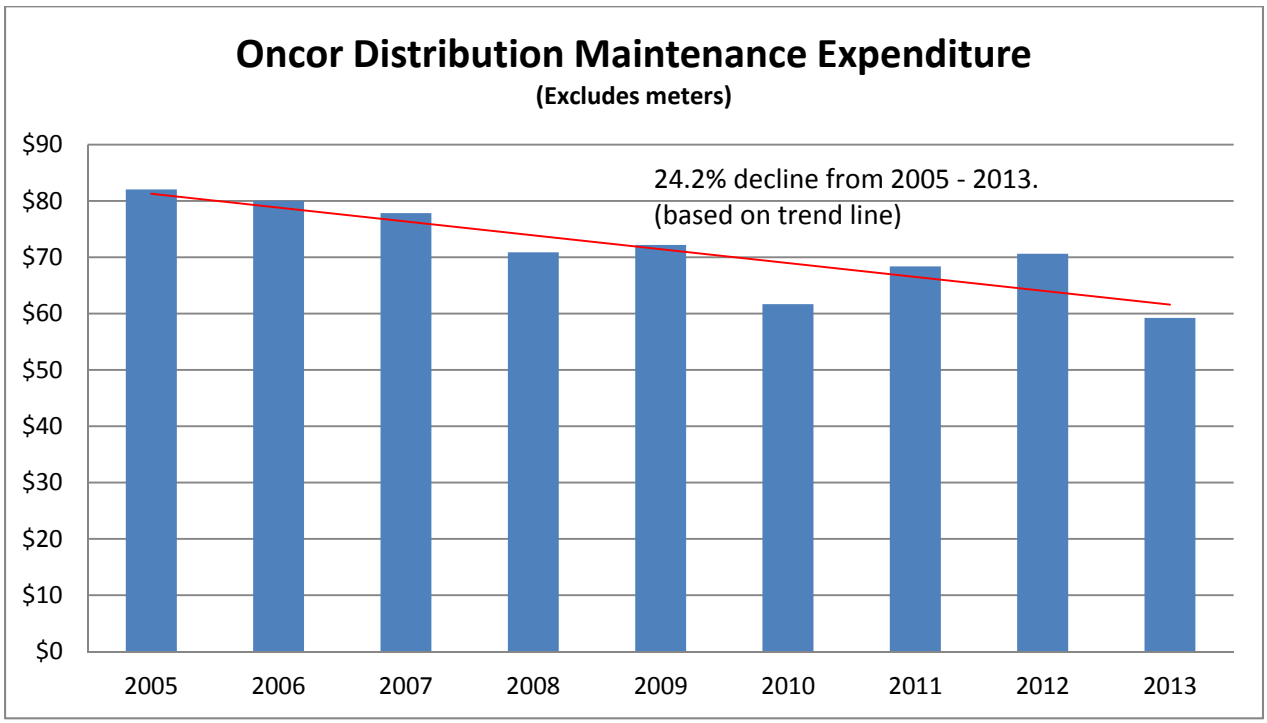


Chart 3.

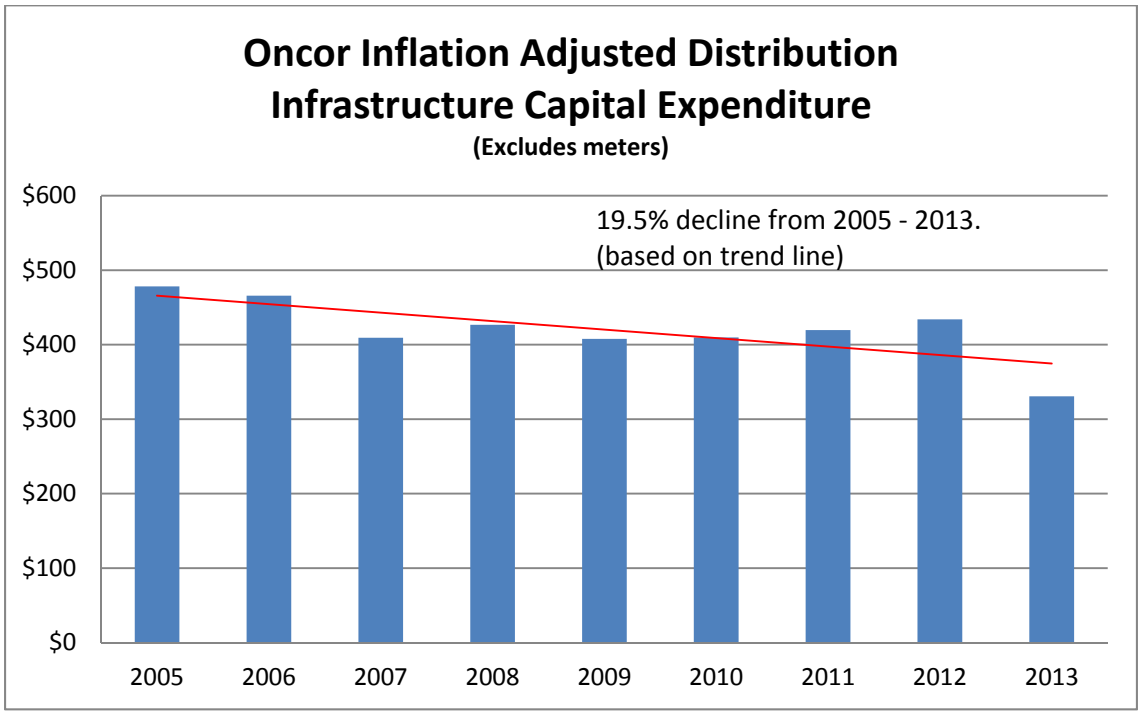


Chart 4.

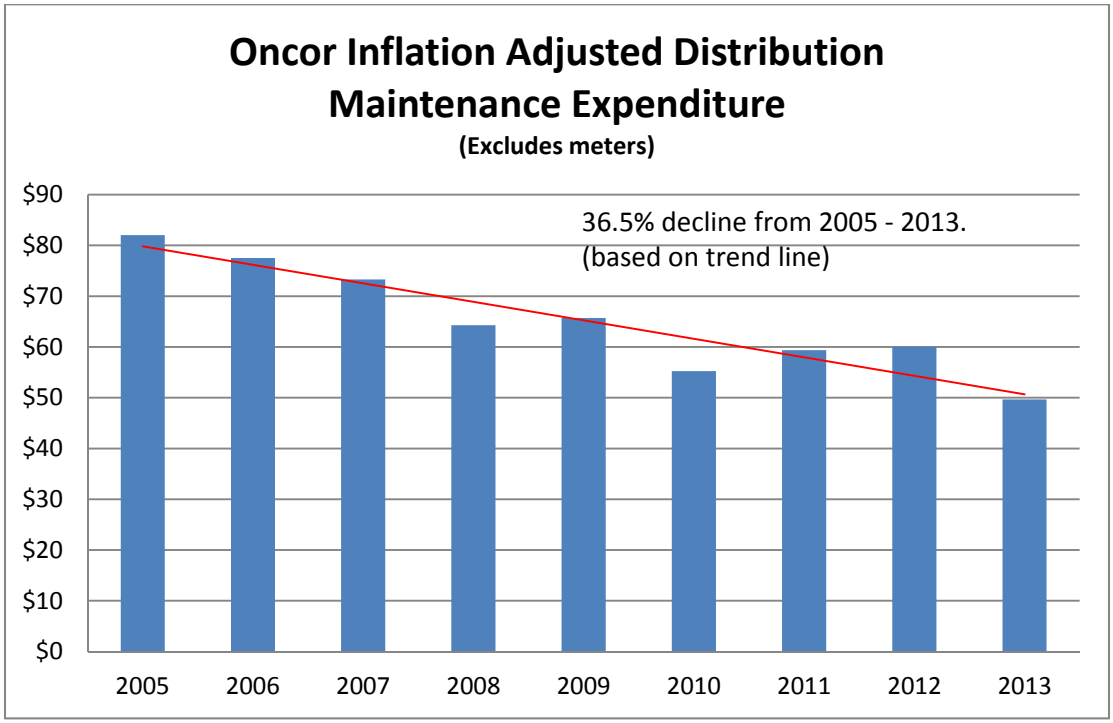


Chart 5.

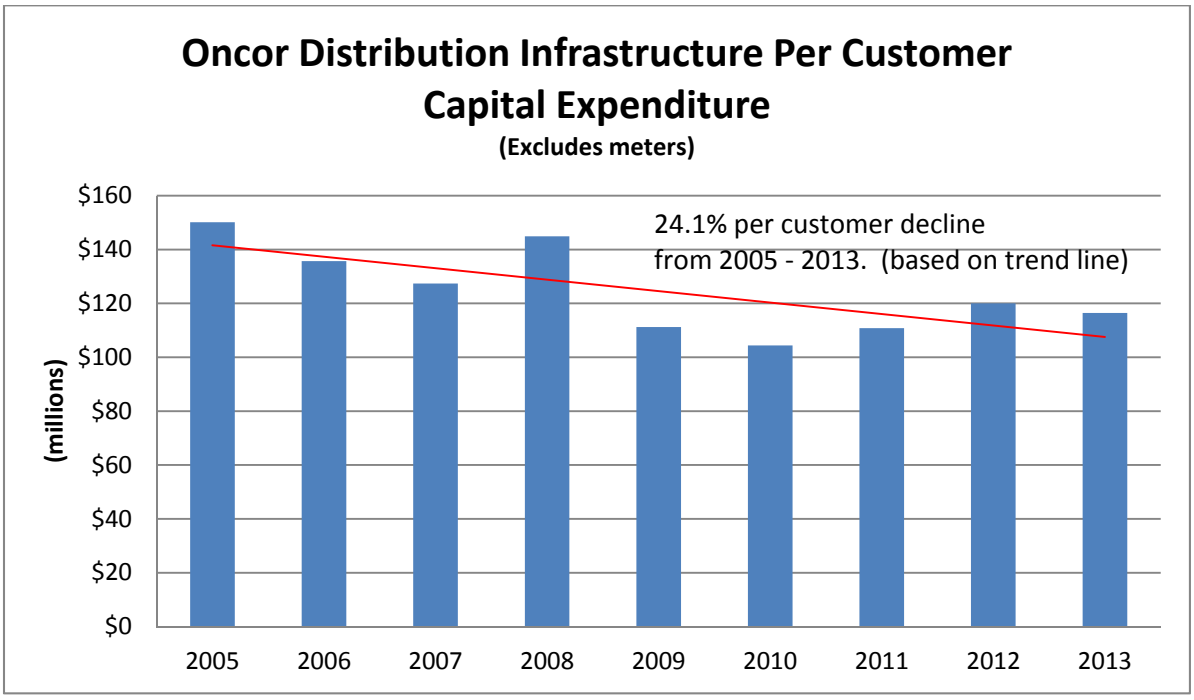


Chart 6.

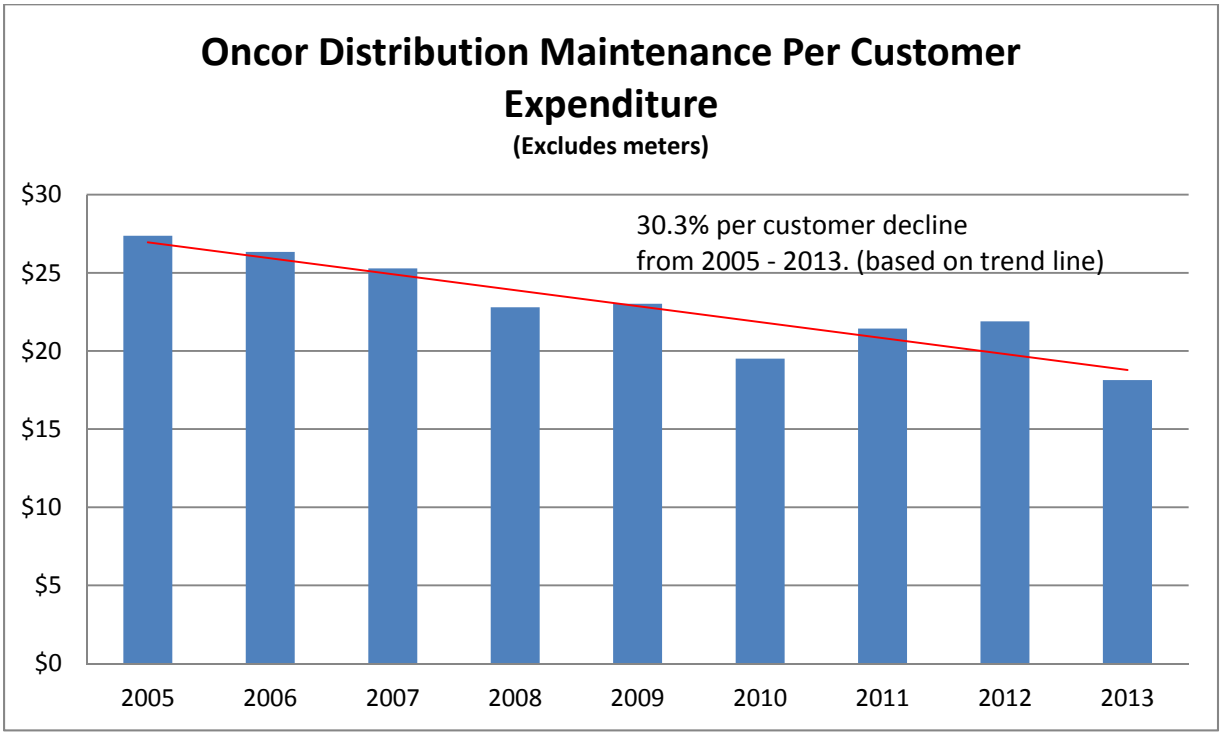


Chart 7.

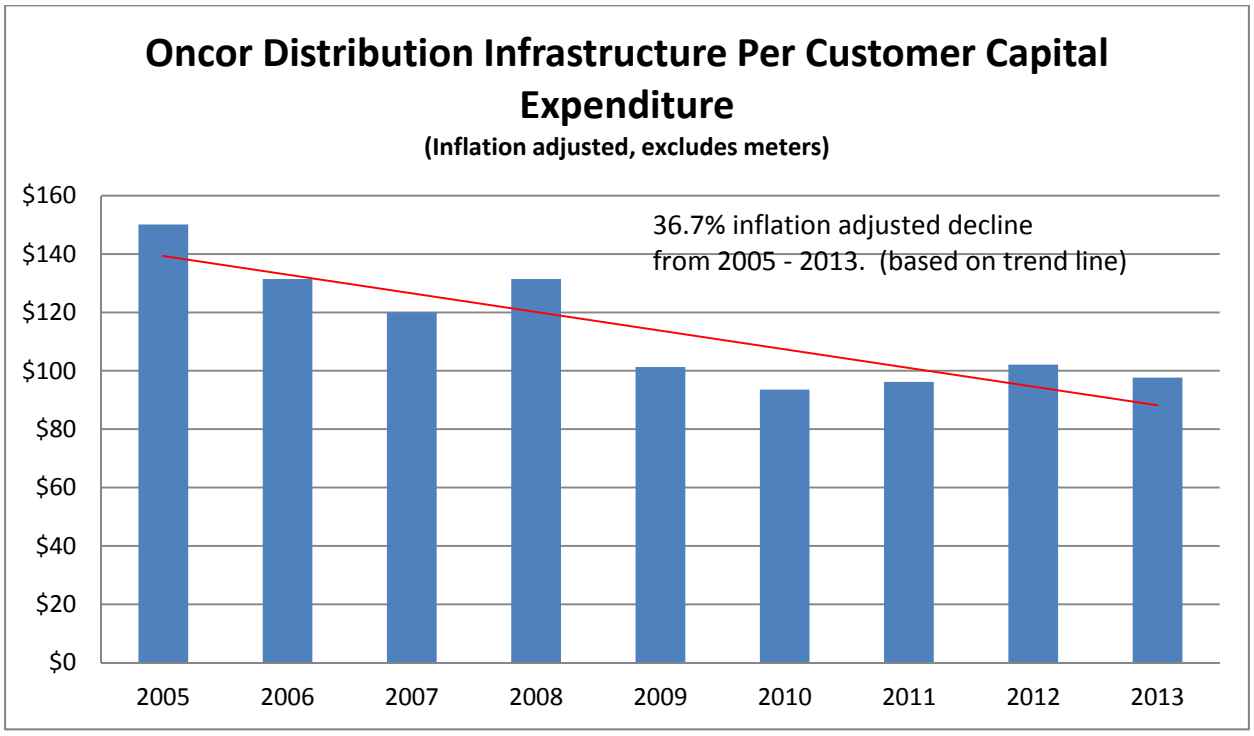
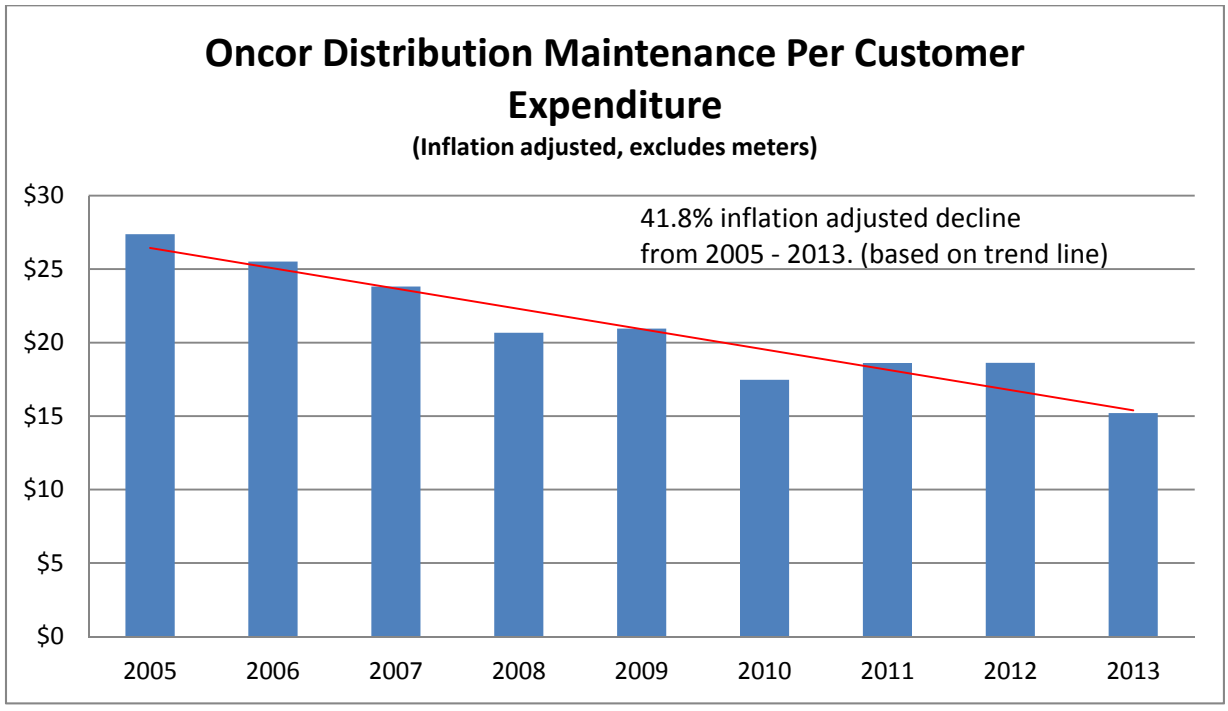


Chart 8.



	DISTRIBUTION EXPENDITURES - ONCOR VS CENTERPOINT									
	ONCOR									
	Distribution Plant Additions									
		2005	**2006**	**2007**	**2008**	**2009**	**2010**	**2011**	**2012**	**2013**
360	**Land & Land Rights**	690,207	4,255,481	8,497,898	8,489,310	5,702,354	1,094,344	534,295	1,040,743	734,694
361	**Structures & Improvements**	6,030,267	6,163,679	-3,091,009	9,822,734	6,305,797	5,038,123	5,287,387	5,521,318	3,696,753
362	**Station Equipment**	57,256,038	40,235,040	51,548,418	76,466,408	48,256,504	58,986,233	55,060,465	59,796,138	36,811,851
363	**Storage Battery Equipment**									
364	**Poles, Towers, & Fixtures**	88,540,769	74,067,466	80,109,627	78,778,502	73,181,272	67,197,721	71,074,234	89,411,161	71,674,254
365	**Overhead Conductors & Devices**	41,416,814	44,453,919	33,439,570	36,476,757	26,424,434	24,915,276	25,283,872	29,859,444	40,690,143
366	**Underground Conduit**	39,744,765	35,663,363	23,956,062	26,083,737	19,355,010	15,232,591	14,081,344	19,298,252	22,601,634
367	**Underground Conductors & Devices**	85,629,227	74,527,682	59,645,067	86,636,940	65,451,830	55,430,938	60,631,517	67,868,240	71,090,925
368	**Line Transformers**	66,530,781	69,582,209	80,411,364	74,891,555	57,406,296	56,758,210	72,387,667	65,945,700	75,036,381
369	**Services**	49,746,394	51,005,165	46,333,460	40,364,955	34,490,049	33,335,500	36,789,609	35,498,801	43,308,433
370	**Meters**	28,356,208	68,625,591	42,379,024	19,850,934	99,160,208	127,476,830	129,874,875	123,236,107	14,039,097
371	**Installations on Customer Premises**	775,913	658,312	795,410	728,637	697,251	593,495	523,570	613,379	1,091,190
372	**Leased Property on Customer Premises**									
373	**Street Lighting & Signal Systems**	13,633,736	11,668,364	10,492,946	11,891,373	11,535,372	11,508,739	11,746,438	12,162,467	13,686,264
374	**Asset Retirement Costs for Distribution Plant**									
	TOTAL DISTRIBUTION PLANT ADDITIONS	**478,351,119**	**480,906,271**	**434,517,837**	**470,481,842**	**447,966,377**	**457,568,000**	**483,275,273**	**510,251,750**	**394,461,619**
	Distribution Plant Additions Excluding Mete	**449,994,911**	**412,280,680**	**392,138,813**	**450,630,908**	**348,806,169**	**330,091,170**	**353,400,398**	**387,015,643**	**380,422,522**
	Per Customer	$ 150.16	$ 135.69	$ 127.40	$ 144.91	$ 111.24	$ 104.43	$ 110.79	$ 120.02	$ 116.48
	Distribution Operations & Maintenance									
		2005	2006	2007	2008	2009	2010	2011	2012	2013
580	**Operation Supervision & Engineering**	5,755,754	5,587,429	5,206,243	5,503,522	4,920,044	6,056,434	6,176,103	6,479,626	7,358,994
581	**Load Dispatching**	5,695,576	5,433,846	5,533,172	5,922,428	5,517,699	5,138,330	4,972,172	5,015,028	5,136,219
582	**Station Expenses**	2,360,411	1,808,482	1,630,494	1,427,849	1,479,122	1,694,100	1,815,980	1,855,067	2,201,162
583	**Overhead Line Expenses**	16,789,692	14,893,090	21,345,724	21,405,145	24,662,131	22,010,927	24,628,485	22,233,635	23,791,896
584	**Underground Lins Expenses**	11,416,466	12,068,498	10,643,067	11,286,161	9,949,091	10,059,952	11,055,305	10,560,232	11,424,355
585	**Street Lighting & Signal System Expenses**	80,340	103,867	95,600	7,253	13,270	43,391	7,118	29,599	82,699
586	**Meter Expenses**	30,211,429	28,885,762	31,393,080	37,658,837	38,412,584	31,710,957	33,027,659	27,235,238	27,038,173
587	**Customer Installations Expenses**	172,062	151,991	317,161	355,487	426,058	287,776	365,874	350,730	321,387
588	**Miscellaneous Expenses**	42,225,929	44,224,773	47,139,569	53,468,036	54,681,333	45,873,859	42,372,158	35,988,165	42,622,494
589	**Rents**	513,935	555,693	493,737	602,496	471,780	377,927	358,755	363,827	370,926
	TOTAL DISTRIBUTION OPERATIONS	**115,221,594**	**113,713,431**	**123,797,847**	**137,637,214**	**140,533,112**	**123,253,653**	**124,779,609**	**110,111,147**	**120,348,305**
	Total Dist Operations Excluding Meter Exp	**85,010,165**	**84,827,669**	**92,404,767**	**99,978,377**	**102,120,528**	**91,542,696**	**91,751,950**	**82,875,909**	**93,310,132**
590	**Maintenance Supervision & Engineering**	2,253,850	2,155,024	1,725,481	2,053,152	1,816,001	2,047,573	2,215,104	2,429,513	2,542,409
591	**Maintenance of Structures**	189,157	37,169	69,424	28,588	30,850	41,231	45,861	91,372	85,897
592	**Maintenance of Station Equipment**	4,996,746	5,171,763	4,999,465	4,161,532	4,797,049	4,625,819	5,529,234	5,676,941	5,846,947
593	**Maintenance of Overhead Lines**	51,797,931	51,564,257	47,029,426	41,950,888	41,274,446	34,347,815	40,267,849	41,858,840	30,039,643
594	**Maintenance of Underground Lines**	11,898,668	10,206,153	13,448,748	10,417,664	11,298,010	9,792,102	9,623,047	9,775,686	9,739,395
595	**Maintenance of Line Transformers**	3,084,141	3,025,513	2,943,171	2,691,090	2,013,851	2,180,981	2,399,861	2,184,135	2,377,469
596	**Maintenance of Street Lighting & Signal Sys**	5,718,357	5,884,124	6,044,491	7,583,192	8,696,131	6,675,421	6,572,376	6,997,884	7,162,837
597	**Maintenance of Meters**	3,447,987	4,227,459	4,526,837	5,629,779	6,765,165	8,009,955	11,175,319	11,771,661	12,249,043
598	**Maintenance of Miscellaneous Dist Plant**	2,096,201	1,975,594	1,566,195	1,989,799	2,255,257	1,961,950	1,725,513	1,603,649	1,446,617
	TOTAL DISTRIBUTION MAINTENANCE	85,483,038	84,247,056	82,353,238	76,505,684	78,946,760	69,682,847	79,554,164	82,389,681	71,490,257
	Total Dist Maintenance Excluding Meters	82,035,051	80,019,597	77,826,401	70,875,905	72,181,595	61,672,892	68,378,845	70,618,020	59,241,214
	Year over year change		94.49%	94.57%	87.70%	102.21%	84.06%	107.48%	101.18%	82.68%
	TOTAL DISTRIBUTION O & M	200,704,632	197,960,487	206,151,085	214,142,898	219,479,872	192,936,500	204,333,773	192,500,828	191,838,562
	Consumer price index	195	202	207	215	215	218	225	230	233
										60.54%
	AVERAGE NUMBER OF CUSTOMERS	**2,996,718**	3,038,381	3,077,913	3,109,701	3,135,675	3,160,851	3,189,759	3,224,689	**3,266,126**
										55.55%
	Distribution Maintenance $$ per Customer	$ 28.53								$21.89
	Distribution Maintenance $$ per Customer	$ 27.37	$ 26.34	$ 25.29	$ 22.79	$ 23.02	$ 19.51	$ 21.44	$ 21.90	$ 18.14
	(excluding meters)									

	CENTERPOINT									
	Distribution Plant Additions									
		2005	**2006**	**2007**	**2008**	**2009**	**2010**	**2011**	**2012**	**2013**
360	**Land & Land Rights**	373,199								2,541,403
361	**Structures & Improvements**	1,857,892	788,623	1,732,595	598,259	253,418	358,828	1,591,719	2,306,540	6,802,256
362	**Station Equipment**	27,430,172	39,579,227	29,116,998	28,446,342	33,904,511	27,542,071	31,946,361	46,700,845	67,347,334
363	**Storage Battery Equipment**									
364	**Poles, Towers, & Fixtures**	19,129,980	20,635,294	20,224,278	18,768,925	21,884,699	20,954,278	23,678,272	25,624,744	34,643,068
365	**Overhead Conductors & Devices**	24,181,249	25,726,076	26,829,691	24,694,832	22,421,602	26,273,818	24,706,911	28,743,249	42,146,221
366	**Underground Conduit**	22,408,434	5,210,942	9,006,879	14,550,745	7,925,687	5,485,218	6,264,381	13,944,993	21,521,891
367	**Underground Conductors & Devices**	40,225,564	35,696,720	42,342,572	43,876,886	39,137,924	26,563,868	29,528,953	46,572,291	35,575,843
368	**Line Transformers**	49,923,412	57,161,921	57,414,614	56,951,100	63,383,293	50,732,949	52,705,188	58,570,657	58,415,792
369	**Services**	6,921,653	6,332,055	8,102,448	8,083,974	6,819,612	5,733,853	5,975,495	5,298,693	6,436,638
370	**Meters**	9,838,062	10,836,676	8,517,721	12,706,518	32,005,129	94,111,512	128,439,727	38,868,938	12,668,691
371	**Installations on Customer Premises**									
372	**Leased Property on Customer Premises**									
373	**Street Lighting & Signal Systems**	24,574,621	19,492,723	22,670,460	19,949,612	34,157,468	13,613,212	13,139,377	14,551,943	15,871,479
374	**Asset Retirement Costs for Distribution Plant**		4,168,189		-1,160,677	-13,298,659	9,686,888	-3,705,543	6,579,744	2,576,457
	TOTAL DISTRIBUTION PLANT ADDITIONS	**226,864,238**	**225,628,446**	**225,958,256**	**227,466,516**	**248,594,684**	**281,056,495**	**314,270,841**	**287,762,637**	**306,547,073**
	Distribution Plant Additions Excluding Mete	**217,026,176**	**214,791,770**	**217,440,535**	**214,759,998**	**216,589,555**	**186,944,983**	**185,831,114**	**248,893,699**	**293,878,382**
	Distribution Operations & Maintenance									
		2005	2006	2007	2008	2009	2010	2011	2012	2013
580	**Operation Supervision & Engineering**	23,668,711	23,155,284	23,471,190	27,483,339	30,488,221	31,415,907	33,771,397	35,131,896	36,843,196
581	**Load Dispatching**	538,420	536,899	2,787,146	2,763,627	3,424,074	4,021,604	6,218,142	4,253,905	3,164,726
582	**Station Expenses**	1,404,205	1,496,683	1,510,728	965,963	1,184,528	1,404,126	1,201,159	1,394,696	1,344,312
583	**Overhead Line Expenses**	5,623,387	1,995,560	2,457,960	1,529,100	2,478,271	3,280,567	3,684,846	3,919,264	2,961,477
584	**Underground Lins Expenses**	4,026,603	4,365,381	3,786,092	3,042,305	3,847,114	5,265,349	5,477,491	6,053,044	4,713,829
585	**Street Lighting & Signal System Expenses**	47,230	279,796	169,996	60,194	100,863	104,119	131,032	503,792	105,434
586	**Meter Expenses**	24,957,800	23,029,031	29,393,926	28,776,998	39,386,372	48,170,367	42,720,352	35,517,956	33,708,806
587	**Customer Installations Expenses**	6,919,466	7,569,579	2,040,069	1,736,094	2,525,610	2,825,524	2,867,338	2,966,344	2,699,055
588	**Miscellaneous Expenses**	22,275,454	22,688,240	24,263,290	23,420,025	28,524,409	28,688,760	30,402,712	28,866,777	26,934,573
589	**Rents**			10,740	1,870					
	TOTAL DISTRIBUTION OPERATIONS	**89,461,276**	**85,116,453**	**89,891,137**	**89,779,515**	**111,959,462**	**125,176,323**	**126,474,469**	**118,607,674**	**112,475,408**
	Total Dist Operations Excluding Meter Exp	**64,503,476**	**62,087,422**	**60,497,211**	**61,002,517**	**72,573,090**	**77,005,956**	**83,754,117**	**83,089,718**	**78,766,602**
590	**Maintenance Supervision & Engineering**	2,823,257	2,962,417	3,828,750	4,395,373	4,871,814	5,485,219	5,785,071	6,134,342	6,155,580
591	**Maintenance of Structures**	572,966	614,153	639,037	598,567	790,505	832,795	836,462	1,219,663	949,407
592	**Maintenance of Station Equipment**	8,508,347	8,941,357	8,785,101	7,530,539	10,789,255	10,251,475	10,472,132	11,003,559	11,100,928
593	**Maintenance of Overhead Lines**	36,742,441	37,170,861	34,972,338	35,935,550	42,896,049	44,586,622	53,491,850	56,412,676	60,102,994
594	**Maintenance of Underground Lines**	5,571,420	5,568,543	5,566,817	5,245,765	6,347,474	6,294,528	7,476,726	6,257,695	7,936,985
595	**Maintenance of Line Transformers**	1,346,208	1,637,922	1,474,753	-182,196	893,810	7,993,648	-41,878	1,938,451	3,114,921
596	**Maintenance of Street Lighting & Signal Sys**	5,088,227	4,905,128	5,937,090	6,908,200	7,535,379	7,366,570	7,032,543	8,643,284	7,971,462
597	**Maintenance of Meters**	2,216,645	2,107,429	2,344,194	1,943,924	3,216,994	3,562,333	3,852,974	3,481,272	3,247,088
598	**Maintenance of Miscellaneous Dist Plant**	1,110,674	1,324,258	1,322,383	970,174	921,163	1,197,870	1,541,597	1,112,860	2,435,690
	TOTAL DISTRIBUTION MAINTENANCE	63,980,185	65,232,068	64,870,463	63,345,896	78,262,443	87,571,060	90,447,477	96,203,802	103,015,055
	Total Dist Maintenance Excluding Meters	61,763,540	63,124,639	62,526,269	61,401,972	75,045,449	84,008,727	86,594,503	92,722,530	99,767,967
	TOTAL DISTRIBUTION O & M	153,441,461	150,348,521	154,761,600	153,125,411	190,221,905	212,747,383	216,921,946	214,811,476	215,490,463
	AVERAGE NUMBER OF CUSTOMERS	**1,938,618**								**2,243,818**
	Distribution Maintenance $$ per Customer	$ 33.00								$ 45.91
	Distribution Maintenance $$ per Customer (excluding meters)	$ 31.86								$ 44.46

Appendix B

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MARCH 23, 2012

BY HAND DELIVERY

Chairman Donna Nelson
Commissioner Ken Anderson
Commissioner Rolando Pablos
Public Utility Commission of Texas
1701 N. Congress Ave.
Austin, Texas 78701

RE: Docket No. 40217 - *Agreed Notice Of Violation And Settlement Agreement Relating To Oncor Electric Delivery Company's Violation Of PURA §38.005 And PUC Subst. R. §25.52, Concerning Reliability And Continuity Of Service*

Dear Chairman and Commissioners:

Oncor Electric Delivery Company LLC ("Oncor") and Staff reached a Stipulation in this matter on February 8, 2012. At the February 10, 2012 Open Meeting, with respect to feeder reliability NOV settlements involving AEP Texas North and AEP Texas Central, Commissioner Anderson voiced his concerns that SAIDI violations have become "almost a formality" and that utilities are treating the fines as cost of doing business, a concern agreed to by Chairman Nelson. Commissioner Anderson indicated that he wanted utilities to take their reliability obligations much more seriously. Since the Stipulation before Your Honors is in form very similar to the AEP NOV settlement agreements, Oncor is filing this letter to provide additional background as to how these settlements are reached, and to show that Oncor takes reliability quite seriously.

In response to Commission Staff's investigations of feeder reliability, Oncor has in previous years, and has for the current investigation for calendar year 2009, provided Staff with detailed information concerning the causes of outages, the number of customers per feeder, historical expenditures per feeder, and other relevant information. Staff and Oncor discuss and consider this information in determining an agreed level of penalties to be paid by Oncor.

For Oncor for calendar year 2009, there were 24 feeders in violation of the system-wide standards required by P.U.C. SUBST. R. 25.52(f)(1)(A) and (B), involving 21 SAIDI violations and 5 SAIFI violations (two feeders violated both the SAIDI and SAIFI standards). These 24 feeders represent less than 1% of Oncor's over 3,000 distribution

feeders. With regard to those 24 feeders, Oncor spent in excess of $6.1 million on the reliability/maintenance of such feeders for the period 2005-2009.

Attached hereto is Attachment A, which provides additional information with respect to the 24 feeders involved. Page 1 of Attachment A shows that, in 2010, 11 of the 21 SAIDI violations were "cured", and three of the five SAIFI violations were "cured."[1] In 2011, another seven of the SAIDI violations were "cured" and a fourth SAIFI violation was cured. Thus, of the 24 feeders, only four feeders had not been "cured" by the end of 2011.

Page 2 of Attachment A provides the causes of the outages for these four feeders for the 2009, 2010 and 2011 calendar years. The first three feeders are located in West Texas, and the causes of the outages generally involve overhead or substation utility facilities. For the fourth feeder, located in the Dallas area, failing underground cable is the predominant cause of the outages.

Page 3 of Attachment A provides the general location of the four feeders, the number of customers on each feeder, the type of customers on the feeder, the number of miles of the feeder (both overhead and underground), and the amount spent on the feeders during the periods 2005-2009, 2010, and 2011. The three feeders located in far West Texas serve no more than 212 customers per feeder, range from 64 to 120 miles in length, and serve predominantly commercial and oil/gas pumping facilities. The fourth feeder serves 317 primarily commercial customers in the Dallas metro area. With regard to expenditures, Oncor spent nearly $1.8 million on these four feeders during the 2005-2009 time period, and spent an additional $1 million on these four feeders in 2010 and 2011. On average, Oncor has spent more than $3,400 per customer over this seven year period for the 836 customers served by these four feeders.

Finally, page 4 provides a map showing the location of the substations from which the three West Texas feeders originate. Two of the substations (Loving and Paul Davis) are fed by 138 kV radial transmission lines, while the Barnsley substation is fed by a 69 kV radial line.

Oncor wishes to assure the Commission that it takes quite seriously the reliability of all of its feeders. Oncor has spent a significant amount of money – many, many multiples of the amounts paid in fines – on the four feeders that continue to exceed the reliability standards. Oncor has not ignored these feeders, nor does it view paying fines as simply a cost of doing business. Oncor continues to review the reliability of its facilities and how best to economically meet the challenges that come with very lengthy radial feeders in remote areas involving oil/gas pumping load. For example, later this year Oncor plans to construct a new substation and build a new distribution feeder into the area currently served by the Loving feeder, thereby moving some of the existing load off of the Loving feeder and providing additional capacity to meet expected increases in load. But this project will cost in excess of $3 million and only benefit 178 customers (55 residential customers) – a cost of nearly $17,000 per customer. Similarly, while

[1] Oncor would note that on Attachment A, a "1-YR" repeat status means that the feeder has exceeded the 300% standard for two years in a row, thus for the first time violating the "two year" standard set out in PURA §38.005(b). A "2-YR" repeat status means the standard has been exceeded for three consecutive years, and so on.

Oncor has spent over $700,000 on the Paul Davis feeder since 2005, to alleviate more of the reliability issues will likely require the construction of an additional substation and new distribution line, at a cost exceeding $3 million – to serve 4 residential customers and 208 commercial/pumping customers. For the Carrollton feeder, Oncor is in the last year of a multi-year cable replacement program in excess of half a million dollars.

Oncor is concerned not only with the reliability of its feeders, but also with being a good steward of the ratepayer's money. PURA Section 38.005(b) sets out factors the Commission is to consider in determining the appropriate enforcement action for feeder reliability violations, and one of those factors, in paragraph (4), is "the estimated cost and benefit of remediating a feeder's performance." Oncor has interpreted this factor to negate a "spend whatever is necessary" approach to remedying feeder reliability violations. Absent direction otherwise by the Commission, Oncor will continue to fund projects based on achieving the most benefit for the most customers at the least cost.

In sum, Oncor hopes that the information provided herein will assuage any concerns the Commission may have that Oncor ignores or does not take seriously the reliability of all of its feeders, is neglecting its rural customers, or views the fines it has agreed to as nothing more than the cost of doing business. At the Open Meeting at which this docket is considered by Your Honors, Oncor will be available to answer any questions that you might have.

Sincerely,

Howard V. Fisher

Howard V. Fisher

Attachment

ONCOR ELECTRIC DELIVERY
SQR-2009 >300% SYSTEM AVERAGE SAIDI/SAIFI REPEAT FEEDERS
(STATUS IN SQR-2009, 2010, AND 2011)

Substation Identification	Feeder Identification	Number of Customers (2011)	OH Primary Miles	UG Primary Miles	SQR-2009 >300% SYS AVG SAIDI REPEAT STATUS	SQR-2010 >300% SYS AVG SAIDI REPEAT STATUS	SQR-2011 >300% SYS AVG SAIDI REPEAT STATUS	SQR-2009 >300% SYS AVG SAIFI REPEAT STATUS	SQR-2010 >300% SYS AVG SAIFI REPEAT STATUS	SQR-2011 >300% SYS AVG SAIFI REPEAT STATUS
PLDAV	4221	212	89.7	0.01	3-YR	4-YR	5-YR		1-YR	2-YR
BRNSY	1211	129	64.4	0.04	2-YR	3-YR	4-YR			
LOVNG	2511	178	117.9	2.55	1-YR	2-YR	3-YR			1-YR
DGLAS	2401	728	101.2	0.9	2-YR	3-YR	ROLLS OFF	1-YR	ROLLS OFF	
FKLCY	5111	104	55.7	0.1	2-YR	3-YR	ROLLS OFF			
MIDWY	0621	124	45.1	0.0	2-YR	3-YR	ROLLS OFF			
TRPMN	4001	794	27.8	0.5	1-YR	2-YR	ROLLS OFF			
THSES	2402	1,332	149.7	1.0	1-YR	2-YR	ROLLS OFF			
FRNKS	4168	948	55.7	1.3	1-YR	2-YR	ROLLS OFF			
EDWDS	5921	950	118.5	0.0	1-YR	2-YR	ROLLS OFF			
DHIDE	2821	108	63.7	0.0	3-YR	ROLLS OFF		1-YR	ROLLS OFF	
COYAN	6321	294	116.9	0.7	3-YR	ROLLS OFF				
ANDRD	0921	93	56.8	0.0	2-YR	ROLLS OFF				
EDGWD	1101	678	66.3	1.1	2-YR	ROLLS OFF				
CRSSN	7911	720	54.1	17.9	2-YR	ROLLS OFF				
UPTON	0721	96	57.8	0.04	1-YR	ROLLS OFF				
PEGAS	2311	112	48.1	0.2	1-YR	ROLLS OFF				
RYSSW	2801	1,921	122.3	11.5	1-YR	ROLLS OFF				
FRFWS	3001	1,795	92.6	1.5	1-YR	ROLLS OFF				
HNRTA	0321	861	84.4	1.3	1-YR	ROLLS OFF				
BLPOD	1201	103	12.1	2.9	1-YR	ROLLS OFF				
CRLTN	1454	317	9.7	7.4				1-YR	2-YR	3-YR
MRSES	3015	570	47.3	0.4				1-YR	2-YR	ROLLS OFF
TSLVL	4001	955	35.9	19.3				1-YR	ROLLS OFF	

ONCOR ELECTRIC DELIVERY
SQR-2009 >300% SYSTEM AVERAGE SAIDI/SAIFI REPEAT FEEDERS
(CAUSE OF FORCED OUTAGES IN SQR-2009, 2010, AND 2011)

Substation Identification	Feeder Identification	Cause of Forced Outages	SQR-2009 >300% SYS AVG SAIDI REPEAT STATUS	SQR-2010 >300% SYS AVG SAIDI REPEAT STATUS	SQR-2011 >300% SYS AVG SAIDI REPEAT STATUS	SQR-2009 >300% SYS AVG SAIFI REPEAT STATUS	SQR-2010 >300% SYS AVG SAIFI REPEAT STATUS	SQR-2011 >300% SYS AVG SAIFI REPEAT STATUS
PLDAV	4221		3-YR	4-YR	5-YR		1-YR	2-YR
		Weather	65.2%	14.3%	6.9%	60.2%	9.7%	18.2%
		Fire	0.0%	0.0%	51.1%	0.0%	0.0%	15.6%
		Animals and Birds	0.3%	0.1%	0.0%	0.4%	0.1%	0.0%
		People (including cars and farm equipment)	0.1%	0.4%	6.0%	0.3%	0.1%	7.7%
		Overhead Utility-owned Equipment	33.9%	31.6%	10.3%	37.8%	17.4%	24.4%
		Substation Utility-owned Equipment and Overloads	0.0%	7.5%	20.8%	0.1%	41.0%	26.3%
		Unknown	0.5%	46.1%	5.0%	1.3%	31.6%	7.9%
BRNSY	1211		2-YR	3-YR	4-YR			
		Weather	29.6%	4.7%	0.5%	46.0%	16.1%	0.8%
		Animals and Birds	2.8%	0.0%	0.0%	3.7%	0.0%	0.0%
		People (including cars and farm equipment)	0.0%	0.0%	18.0%	0.0%	0.0%	24.3%
		Overhead Utility-owned Equipment	66.7%	92.4%	28.7%	48.4%	74.4%	38.1%
		Substation Utility-owned Equipment and Overloads	0.0%	0.0%	52.4%	0.0%	0.0%	36.3%
		Unknown	0.8%	2.9%	0.4%	1.9%	9.4%	0.5%
LOVNG	2511		1-YR	2-YR	3-YR			1-YR
		Weather	14.7%	52.0%	3.1%	25.8%	44.9%	5.4%
		Animals and Birds	0.2%	0.2%	0.0%	0.2%	0.3%	0.1%
		People (including cars and farm equipment)	0.0%	0.2%	2.5%	0.0%	0.3%	2.8%
		Overhead Utility-owned Equipment	53.3%	38.8%	86.2%	41.2%	27.7%	68.6%
		Substation Utility-owned Equipment and Overloads	30.8%	3.4%	0.8%	31.3%	21.4%	1.2%
		Unknown	1.0%	5.3%	7.4%	1.5%	5.3%	22.1%
CRLTN	1454					1-YR	2-YR	3-YR
		Weather	1.1%	3.3%	1.4%	0.3%	0.6%	0.4%
		Animals and Birds	0.0%	2.9%	0.0%	0.1%	1.0%	0.0%
		People (including cars and farm equipment)	4.6%	0.3%	0.1%	2.6%	0.1%	0.1%
		Overhead Utility-owned Equipment	0.0%	1.1%	19.8%	0.0%	0.4%	19.4%
		Underground Utility-owned Equipment	89.4%	92.5%	48.0%	96.4%	98.0%	44.0%
		Substation Utility-owned Equipment and Overloads	4.8%	0.0%	30.8%	0.6%	0.0%	36.1%

ONCOR ELECTRIC DELIVERY
SQR-2009 >300% SYSTEM AVERAGE SAIDI/SAIFI REPEAT FEEDERS
(ACTUAL PROJECT SPEND FROM 2005-2011)

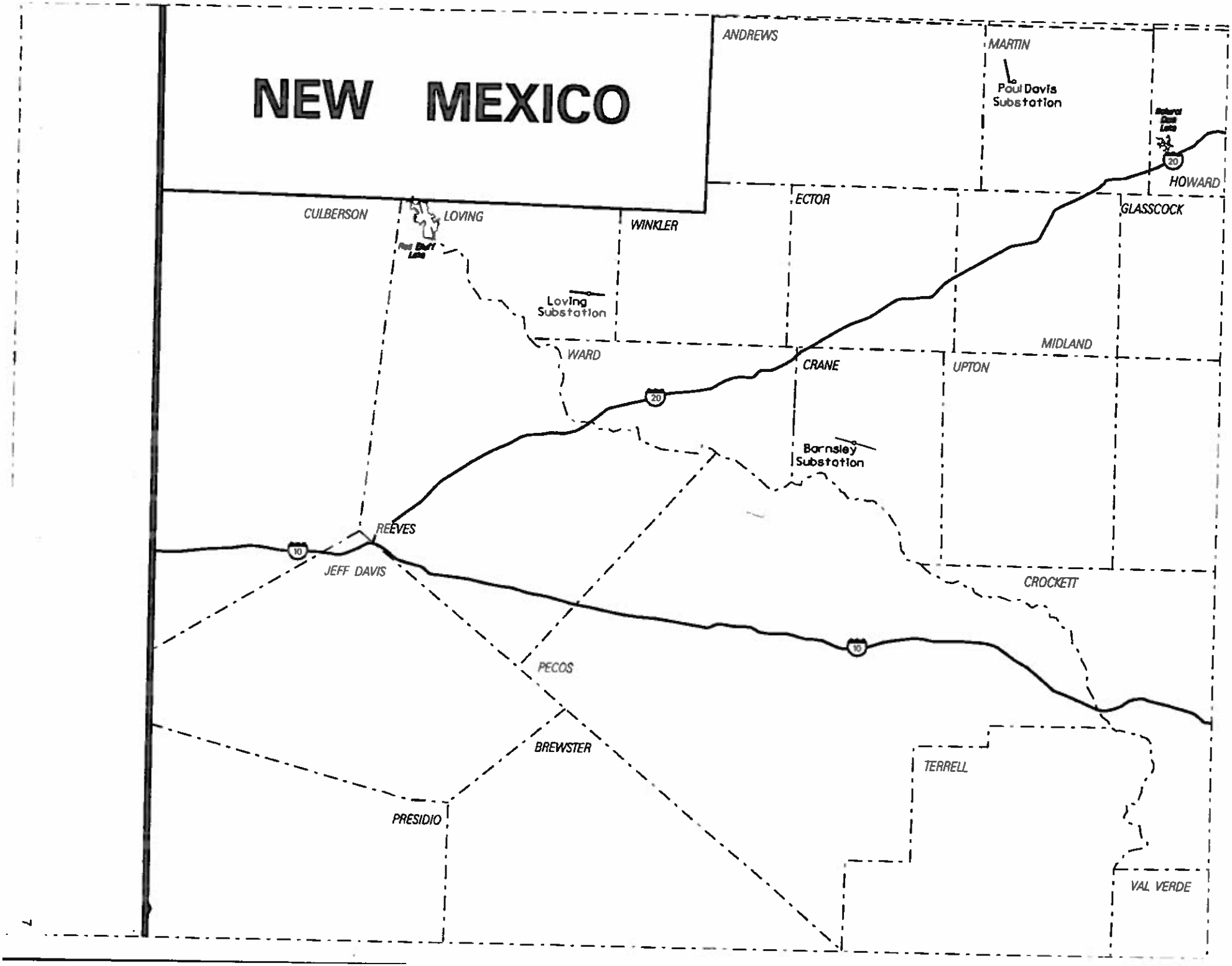
Geographic Location	Substation Identification	Feeder Identification	Number of Customers (2011)	Customer Type	OH Primary Miles	UG Primary Miles	2005-2009 Project Spend	2010 Project Spend	2011 Project Spend	Total Project Spend 2005-2011	Notes
WEST TEXAS	PLDAV	4221	212	2% Residential; 98% Commercial, oil/gas pumping and other	89.7	0.01	$ 506,000	$ 8,000	$ 238,000	$ 752,000	
WEST TEXAS	BRNSY	1211	129	2% Residential; 98% Commercial, oil/gas pumping and other	64.4	0.04	$ 186,000	$ 19,000 (1)	$ 151,000	$ 356,000	(2)
WEST TEXAS	LOVNG	2511	178	31% Residential; 69% Commercial, oil/gas pumping and other	117.9	2.6	$ 640,000	$ 71,000	$ 133,000	$ 844,000	(3)
DFW METRO	CRLTN	1454	317	7% Residential; 93% Commercial	9.7	7.4	$ 460,000	$ 135,000	$ 304,000	$ 899,000	
		TOTALS	836		281.8	10.0	$ 1,792,000	$ 214,000	$ 826,000	$ 2,851,000	

NOTES:

(1) INCLUDES $10,000 OF ESTIMATED RESPONSIVE WORK PERFORMED IN 2010

(2) THIS FEEDER IS BEING EVALUATED FOR PLACEMENT OF ADDITIONAL DYNAMIC SECTIONALIZING DEVICES AND REMOTE FAULT INDICATORS in 2012

(3) NEW SUBSTATION IS BEING BUILT IN 2012 TO PICK UP LOAD FROM LOVNG-2511 AND TO PROVIDE BACKSTAND TIE (Estimated Project Spend of $3,000,000)


NEW MEXICO
ANDREWS
MARTIN
Paul Davis Substation
HOWARD
GLASSCOCK
ECTOR
WINKLER
CULBERSON
LOVING
Red Bluff Lake
Loving Substation
WARD
CRANE
MIDLAND
UPTON
Barnsley Substation
REEVES
JEFF DAVIS
CROCKETT
PECOS
BREWSTER
TERRELL
PRESIDIO
VAL VERDE
20
10