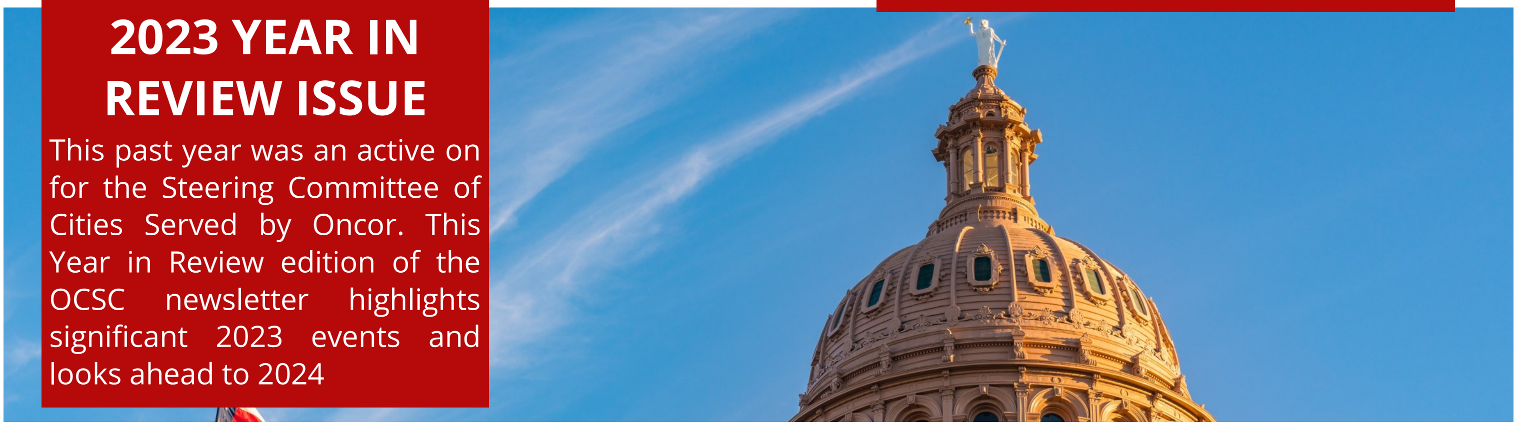
2023 OCSC Newsletter

Steering Committee of Cities Served by Oncor

2023 YEAR IN REVIEW ISSUE

This past year was an active on for the Steering Committee of Cities Served by Oncor. This Year in Review edition of the OCSC newsletter highlights significant 2023 events and looks ahead to 2024



2023 RATE CASE NEWS

Oncor Rate Request Cut by Quarter Billion Dollars

OCSC Represents Consumer Interests in Rate Case

An order cutting Oncor's annual revenues by $13 million — or .2 percent — received final Public Utility Commission authorization on August 24, 2023.

In a rate case filed in May 2022, the Dallas-based utility initially sought a $251 million revenue increase, or 4.5 percent over its 2021 test year revenues of $5,560,081,218. The administrative law judge hearing the case rejected that proposal with an initial Proposal for Decision ("PFD") adopted on April 6 and then the Commission reversed several findings in its Order on Rehearing adopted on June 30. In an August 24 vote, the Commission declined to extend the timeline for further consideration of the case.

As a result of the PUC's decision, Oncor has had its initial rate request slashed by more than a quarter-billion dollars. The PUC's decision will also lead to smaller bill increases for customers than they otherwise would have experienced under the company's initial proposal. The Steering Committee of Cities Served by Oncor ("OCSC") participated in the rate case on behalf of the cities in its coalition and their citizens.

Details

Oncor in a May 13, 2022, rate-case filing initially sought a $5,810,772,332 revenue requirement based on a 7.05 percent overall rate of return. The administrative law judge's PFD from April 6 would have decreased the utility's revenues by $247 million, or by 4.4 percent.

However, the PUC's June 30 Order on Rehearing modifies that earlier PFD and will award the company a 6.65 percent rate of return on a $5,547,515,324 revenue requirement. The approved revenue requirement represents a .2 percent reduction from the company's 2021 test year revenues of $5,560,081,218.

Despite the utility's revenues remaining nearly unchanged under the order, residential customers nonetheless will see a bill increase because of the approved class cost-allocation methodology.

More specifically, an average residential customer would have experienced a $7.22 monthly increase under the company's filed rate case, and Oncor would have benefited from an 11.2 percent increase in residential class revenues. Under the adopted Order on Rehearing, an average residential customer will experience a $3.10 increase in monthly bills, and the company will benefit from a 6.1 percent increase in residential class revenues, according to an analysis by OCSC.

The Commission in its June 30 Order also agreed with an earlier recommendation by an administrative law judge that disallowed the utility's requested recovery of $23.5 million from rate base. The PUC likewise agreed with the administrative law judge disallowing Oncor's requested annual amortization of $851,000 for costs associated with an acquisition adjustment.

However, the PUC reversed an administrative law judge's determination that Oncor should not recover any costs associated with its investments in temporary emergency electric energy facilities. The administrative law judge previously concluded that Oncor did not comply with the competitive bidding requirements and that its use of mobile-generation units exceeded the limited purposes permitted under law. The PUC disagreed with both conclusions.

Oncor provides transmission and distribution services to approximately 13 million customers and interconnects approximately 3.8 million homes and businesses in Texas. Its service area covers more than 54,000 square miles, extending from the Red River to just north of Austin, and includes much of east Texas, west Texas, and parts of the Panhandle. Oncor owns, operates, and maintains more than 140,000 circuit miles of transmission and distribution lines and more than 1,100 substations and switching stations.

More information concerning this rate case can be found on the PUC website, under Docket No. 53601. Oncor's previous base-rate case was filed on March 17, 2017, in Docket No. 46957.

Other 2023 Oncor Rate Filings and Regulatory News

Energy Efficient Cost Recovery Factor Filing (55074)

On May 31, 2023, Oncor filed an application to establish its Energy Efficiency Cost Recovery Factor (EECRF) for the upcoming 2024 year. OCSC intervened in the case and identified aspects of the requested increase that were unreasonable based on Oncor's previous use of its EECRF budget.

In its original filing, Oncor sought a 2024 EECRF of $72,399,769. After settlement negotiations, Oncor agreed to reduce its request by $125,000.

The PUC approved the settlement on Sept. 14, 2023. More information can be found on the PUC we site under Docket No. 55074.

Oncor Files Two 2023 DCRFs; PUC Rejects Hearings (55190, 55525)

On June 29, 2023, Oncor Electric Delivery Company filed a Distribution Cost Recovery Factor ("DCRF") application to increase its distribution revenues by $152,777,465. The PUC approved the application on November 3, but with $268,528 transmission expenses removed. With that modification, Oncor's authorized DCRF application will allow the utility to recover an additional $152,508,937 from customers on an annual basis. The DCRF charge on residential bills associated with this DCRF filing will be .002847 per kilowatt hour, or about $3.70 monthly for a customer using 1,300 kilowatt hours. More information can be found about the DCRF in PUC Docket 55190.

On September 15, Oncor submitted a second DCRF application for 2023. Under it, the utility seeks to increase its distribution revenues by another $56,536,428. However, under a settlement agreement with the Oncor Cities Steering Committee and others, the utility agreed to reduce its recovery by $3 million. The DCRF charge on residential bills under the revised agreement will be .002491 per kilowatt hour, or about $3.24 monthly for a customer using 1,300 kWh monthly.

On Dec. 14, 2023, the PUC approved the settlement in the second DCRF, which can be found under PUC Docket 55525. The combined new DCRF charge (with changes from both 55190 and 55525) will be .005338, or about $6.94 for a customer using 1,300 kWh monthly.

PUC Commissioner: No Right to Hearings in DCRF Cases

In a discussion of the second DCRF on Nov. 30, PUC commissioners agreed unanimously that parties have no right to hearings in DCRF proceedings. Chair Kathleen Jackson said she came to this conclusion because of the Legislature's adoption of Senate Bill 1015 in 2023 that includes a 60-day deadline for consideration of DCRF cases. Jackson further explained that since DCRF proceedings are interim rate adjustments, the opportunity for a hearing will occur in the next base rate proceeding. More information can be found in Docket 55525.

Oncor to Pay Penalty for Reliability Violations (55804)

Oncor will pay $322,000 in penalties for repeated service and quality violations, under a 2023 settlement agreement.

The agreement, which Public Utility Commission staff posted on November 30, still requires approval by agency commissioners. Under it, Oncor agrees that it committed multiple violations of the PUC's service and quality standards during 2020 and 2021. Each of the violations pertained to the agency's System Average Interruption Duration and System Average Interruption Frequency Indexes, or "SAIDI" and "SAIFI," respectively.

By way of background, SAIFI measures the average number of service interruptions per customer — a figure calculated by summing the number of customers interrupted for each event and dividing that figure by the total number of customers. SAIDI, meanwhile, measures the average interruption time on a per-customer basis, and is expressed in minutes. All else equal, lower SAIDI and lower SAIFI scores represent better reliability.

However, according to the Nov. 30 proposed settlement agreement, Oncor exceeded average SAIDI and SAIFI scores by more than 300 percent on multiple occasions and on multiple feeders. Oncor gave varied reasons for the violations — on some occasions, the company blamed high-wind events and lighting strikes. On others, the company cited incidents involving public vehicles, such as trucks striking overhead lines.

Meanwhile, PUC staff, said that "Oncor's failure to maintain reliable electric distribution service presents a hazard to the health and safety of its customers.

"The most immediate health and safety risk is borne by customers who rely on electricity-dependent medical equipment, such as breathing machines and battery-powered mobility devices," the staff continued in its Nov. 30 PUC filing. "However, extended service interruptions during periods of extreme temperatures pose a risk to the health of all customers, especially those who may be elderly, sick, or otherwise vulnerable to prolonged exposure to hot or cold temperatures."

More information can be found on the PUC website, under Docket No. 55804.

2023 ERCOT NEWS

ERCOT Approves Fee Increase

ERCOT's budget will grow 40 percent in 2024 — adding nearly $119 million to its current $287 million budget, under newly authorized spending projections.

Much of the increase will come from a 13.5 percent increase in the System Administration Fee on wholesale energy — or from 55 cents per megawatt hour to 63 cents. The PUC approved the change on Nov. 2 on a 4-0 vote, after two hours of deliberation.

The grid operator initially sought a 71-cent fee, and then revised its request downward to 69 cents per mWh. But even that revised request received pushback from commissioners. "I asked (ERCOT) the question, 'Is there anything on your wish list that you didn't put in here? ' And the answer was no… That tells me there's not a lot of budget scrutiny," Commissioner Jimmy Glotfelty said at the Nov. 2 meeting.

ERCOT will begin collecting the higher fee in January, and it will remain in effect through at least 2025. ERCOT CEO Pablo Vegas has said the organization likely will not seek another increase prior to 2028.

ERCOT, also known as the Electric Reliability Council of Texas, does not charge the System Administration Fee directly to end-user bills, but to middlemen in the wholesale electricity market. Even still, a typical residential customer could expect to pay about $1.20 per month downstream because of the ERCOT charge and the proposed increase.

The System Administration Fee finances most ERCOT operations, and, with the adoption of proposed adjustments, will account for $330 million of the organization's $424 million in 2024 revenue, according to

ERCOT Board Members Pay Nearly Doubles

ERCOT board members had their pay nearly doubled under a PUC order that becomes effective in July 2023.

Approved by the PUC during the previous month, the change increased base compensation for ERCOT board members from $87,000 per year to $160,000. In addition, the PUC approved increases in supplementary compensation for the board chair, board vice chair and for ERCOT committee chairs. Under the changes, the board chair's supplementary pay goes from $12,800 to $35,000; the vice chairs' supplemental pay goes from $7,500 to $15,000; and the supplemental pay for ERCOT committee chairs goes from $5,600 to $25,000.

ERCOT, in requesting the increases, said that compensation levels for board members have remained unchanged for almost 11 years.

Heat Wave Prompts Record Demand on ERCOT Grid

Power demand hit record highs inside ERCOT on at least a dozen occasions during the summer of 2023, with residential consumers and businesses cranking up their air conditioners for hours on end.

However, ERCOT, also known as the Electric Reliability Council of Texas, maintained sufficient resources to meet demand. ERCOT manages the electricity grid for about 90 percent of the state's power load.

In descending order, some of the peak usage records broken include the 85,435 megawatts consumed on August 10; the 83,961 MW consumed on August 9; the 82,539 megawatts consumed on July 18; the 81,911 megawatts on July 17; the 81,406 megawatts on July 13; and the 81,351 megawatts on July 12. One megawatt can power around 200 U.S. homes on a hot summer day.

Last summer, ERCOT consumers set 11 peak demand records.

Steering Committee of Cities Served by Oncor

Texas Gets Federal Money for ERCOT Grid

In 2023, the federal government allocated $60.6 million to be directed to electric utilities in Texas to strengthen power grid infrastructure.

The U.S. Department of Energy announced the grant awards on July 6, explaining that the funding is intended to help the state's power grid withstand extreme weather events.

"These grants will help modernize the electric grid to reduce impacts of extreme weather and natural disasters while enhancing power sector reliability," U.S. Secretary of Energy Jennifer Granholm said in a statement.

State emergency officials will develop parameters for how to use the money, according to media reports. *The Texas Tribune* reports that the funding could go toward programs such as trimming trees around power lines or improving how equipment functions in extreme heat or cold.

Texas policymakers have focused various legislative and regulatory initiatives on grid dependability ever since the winter outages of 2021 that led to several hundred deaths.

PUC Commissioner, ERCOT Market Monitor Resign

Two key figures overseeing the state's power grid — Public Utility Commissioner Will McAdams and ERCOT Independent Market Monitor Carrie Bivens — submitted their resignations in 2023.

McAdams was first appointed to the PUC after Winter Storm Uri that left millions without power. He resigned from the commission effective in December.

The PUC on Nov. 9 also confirmed that Carrie Bivens, the independent market monitor for the Texas grid, would be resigning. Her departure came shortly after she raised questions about the potential billion-dollar-plus cost of a new ancillary service — the ERCOT Contingency Reserve Service — approved by the Public Utility Commission.

Ms. Bivens is an employee of Virginia-based Potomac Economics, which currently holds the Independent Market Monitor contract for Texas. However, that contract is set to expire soon, and the PUC recently has issued a Request for Proposal for a new contract term.

88th Texas Legislature Recap: Electric Legislation

Before adjourning *sine die* on May 29, 2023, lawmakers of the 88th Regular Session of the Texas Legislature considered hundreds of bills that relate to electric and gas issues — including many filed in response to the devastating winter storm of 2021. Below we describe the final outcomes of some of the major bills relating to electricity issues, with descriptions of bills that passed and those that didn't.

Adopted Legislation

Bills relating to significant electricity issues that **received approval** during the 88th Regular Session include:

- **HB 1500**, by Rep. Justin Holland and Sen. Charles Schwertner, is the PUC, OPUC and ERCOT "Sunset" bill. **Many recommendations submitted by city groups such as the Steering Committee of Cities Served by Oncor ("OCSC") in advance of this year's session and prior ones were included in the final, adopted version of HB 1500.** These include requirements for a more deliberative process by the PUC for issuing directives to ERCOT; the creation of a cost cap on the expensive and unproven Performance Credit Mechanism market overhaul endorsed by the PUC; protections against the potential misuse by generators of Voluntary Mitigation Plans; and an increased penalty cap for market manipulation violations. The contents of several Senate bills that otherwise failed during the 88th Texas Legislature likewise made it into the final, adopted version of HB 1500. This included language from Senate Bill 1287, by Sen. Phil King, to cap ERCOT system interconnection costs, with costs over the cap borne by the interconnecting generator and not ratepayers; and language from SB 7, by Sen. Charles Schwertner, that (among other things) establishes a new Ancillary Service for dispatchable generation resources that can remain operational for at least four hours.

- **SB 2627,** by Sen. Schwertner and Rep. Carol Alvarado, will allocate $5 billion in tax dollars to create a low-interest loan program to incentivize building new generation facilities. The legislation likewise finances construction completion bonuses for and provides funding for system hardening in non-ERCOT areas.
- **SB 1015,** by Sen. Phil King and Rep. David Spiller, allows electric utilities to make Distribution Cost Recovery Factor (DCRF) filings twice per year (as opposed to current law that limits filings to once a year). **At the urging OCSC and the Texas Coalition for Affordable Power ("TCAP"), a separate city group, lawmakers removed a provision that would have limited city regulatory oversight over DCRF proceedings and made other improvements to this legislation.**
- **SB 1016**, by Sen. King and Rep. Jay Dean, creates a presumption in a utility rate proceeding that employee salaries and benefits are reasonable if based on a compensation study no more than three years old.
- **SB 2011**, by Sen Schwertner and Rep. Shelby Slawson, raises the cap on enforcement penalties on ERCOT market manipulation violations from $25,000 per violation per day to $1 million per violation per day. It also requires more frequent updating of voluntary mitigation plans.

Failed Legislation

Bills relating to significant electricity issues from the 88th Regular Session that failed to become law include:

- **HB 3042**, by Rep. David Spiller, and SB 1889, by Drew Springer, relate "to the consideration of the proportion of long-term debt and equity capitalization in establishing the rates of electric utilities." These companion bills would have modified rules for the calculation of debt and equity ratios for electricity ratemaking purposes — but to the detriment of ratepayers. **TCAP, OCSC and another city group, the Atmos Cities Steering Committee ("ACSC"), opposed this legislation.**
- **SB 1291**, by Sen. King, would have undermined the ability of municipalities to receive reimbursement for participating in electric utility rate cases. **TCAP, OCSC and ACSC opposed this legislation.**
- **SB 6**, by Sen. Schwertner, called for the creation of a multi-billion-dollar taxpayer-funded program to finance the construction of backup generation. A similar bill, SB 1377 by Sen. Tan Parker, also failed to win approval.
- **SB 2010,** by Sens. Charles Schwertner and Phil King, related "to required reporting by the wholesale electric market monitor for the ERCOT region." The Legislature adopted it on May 18. The governor vetoed it a month later. Had SB 2010 taken effect, it would have required the PUC to submit to the Legislature an annual report describing incidences of ERCOT market abuse during the previous 12 months. According to media reports, the bill was among dozens that the governor axed as part of his strategy to break an impasse over property tax legislation.

2024 OCSC Meetings
March 5
June 6—Virtual
September 12
December 12—Virtual

OCSC Officers
Chair—Paige Mims
Vice Chair—Don Knight
Secretary—Lupe Orozco
Treasurer—David Johnson

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

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