2024 OCSC Newsletter

Steering Committee of Cities Served by Oncor

2024 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 2024 events and looks ahead to 2025.

ONCOR 2024 YEAR IN REVIEW

PUC Approves Oncor Resiliency Plan in 2024; OCSC Negotiates Improvements

A $3 billion resiliency plan submitted by Oncor, the north Texas electric utility, received approval Nov. 14 by the Texas Public Utility Commission.

The plan, which includes pro-consumer modifications negotiated by OCSC and other intervenors, marks a first. Several other utilities have also submitted resiliency plans to the PUC as authorized by House Bill 2555, enacted by the Texas Legislature in 2023. The resiliency plans are intended to harden the grid against extreme weather events, wildfires, cybersecurity, and physical threats.

Oncor said its planned upgrades will reduce the impact of severe weather outages and address other physical and cybersecurity risks. Investments include those for overhead and underground lines, smart grid technologies, enhanced wildfire mitigation, additional vegetation management, improved physical security, and improved cybersecurity risk mitigation.

Oncor based its plan on two decades of weather and grid data. The improvements will "substantially reduce outage minutes," Oncor CEO Allen Nye said in a statement.

However, because the plan was the first of its kind, it lacked some of the technical data common to some other rate filings. As such, OCSC, during settlement talks, focused on obtaining commitments from Oncor to improve its metrics so parties can better evaluate the plan's success and have a baseline to judge the success of plans in the future.

Oncor's current plan covers the three-year period from 2025 to 2027. The company will recover implementation costs through interim rate adjustment mechanisms, such as the Distribution Cost Recovery Factor. Details of the settlement agreement, which was reached after multiple meetings between Oncor, the OCSC, and other intervenors, can be found on the PUC website, under PUC Docket No. 56545.

The PUC's approval allows Oncor to begin implementing its resiliency measures and — as specified in House Bill 2555 — allows the utility to recover the costs associated with the improvements through rates applied to their customers' future electric bills.

PUC Adopts Ancillary Services Rules with OCSC Input

On Dec. 19, the Public Utility Commission adopted a new set of rules governing Ancillary Services, a key component of the ERCOT-managed energy market employed to help maintain system reliability.

The rules included considerations of recommendations forwarded by OCSC and other intervenors and were adopted as part of a study of the state's Ancillary Services posture mandated by Texas lawmakers in the aftermath of Winter Storm Uri. In approving the Ancillary Services Study in December, the PUC made two significant AS policy decisions as detailed below.

ERCOT Confirms—and Maintains—Recent "Conservative Operations"

During the AS study process, ERCOT confirmed a recent shift in its operational practices. Before Winter Storm Uri, ERCOT acquired AS quantities necessary to avoid load shed or blackout events. After Winter Storm Uri, ERCOT acquired greater quantities of AS so as also to avoid emergency "Watches." OCSC and an allied municipal coalition, the Texas Coalition for Affordable Power, argued that this new conservative posture is unnecessary and inflates consumer costs and that ERCOT's AS new acquisition procedures are ambiguous and require supporting cost analysis.

However, the PUC directed ERCOT to continue conservative operations until ERCOT produces the cost analysis necessary to compare competing operating postures. ERCOT will now develop cost analysis related to various operating postures before 2027 when the Commission will update the AS Study. In 2027, cost analysis may compel ERCOT to adjust its operating posture to a less conservative, more consumer-friendly, approach.

PUC Broadens the Scope of AS Objectives

The Commissioners, in its adopted AS Study, also directed ERCOT to develop the Dispatchable Reliability Reserve Service — that is, ERCOT's newest AS — in a manner that both promotes operational reliability and resource adequacy initiatives. Cities argued that resource adequacy initiatives are outside the scope of AS policy and could possibly inflate DRRS costs. Nonetheless, in large part due to ongoing resource adequacy concerns, the PUC directed ERCOT to develop DRRS in a manner that preserves "optionality"— i.e., the ability to deploy DRRS for operational reliability *and* resource adequacy. ERCOT stakeholders, including Cities, will now determine to what extent DRRS should serve as a resource adequacy initiative.

The rulemaking comes in response to Senate Bill 3 from 2021, under which the PUC, ERCOT, and ERCOT's Independent Market Monitor (IMM) were charged with conducting a top-to-bottom examination of Ancillary Services in the ERCOT region. This examination includes the type, volume, and cost of ancillary services, whether those services continue to meet the needs of the ERCOT region, and whether additional services are needed for reliability, with an emphasis on dispatchable generation.

More information about this rulemaking can be found on the PUC website, under Project No. 55845, *Review of Ancillary Services in ERCOT*. More information about Ancillary Services can be found in the OCSC ERCOT glossary, found online on the OCSC website.

Oncor Receives Approval for Multiple DCRF Increases

On Oct. 24, the PUC adopted another Oncor Distribution Cost Recovery Factor rate increase —the fourth since June 2023 — bringing the total increases over that period to more than $377 million.

Under the newest increase, the per-customer DCRF charge will increase from .003472 per kilowatt hour approved in its most recent DCRF case to .004553. This new charge amounts to more than $71 per year for a typical customer consuming 1,300 kWh of power per month.

The repeated rate hikes are a result of state laws adopted in 2011 and 2023 that created and then modified the DCRF ratemaking process. Under it, transmission and distribution utilities can file for rate increases at the Public Utility Commission to recover capital expenditures on their distribution systems in an expedited fashion.

Texas lawmakers initially adopted Senate Bill 1693 in 2011 that laid out initial DCRF guidelines and included rules barring utilities from filing more than one DCRF per year. Then, in 2023, the Texas Legislature adopted Senate Bill 1015 that allowed electric utilities to seek DCRF rates hike twice annually.

However, Oncor has taken advantage of an otherwise trivial semantic distinction— that is, the difference in meaning between “calendar year” and “every 12 months” — to file a total of four rate cases within 14 months. That is, the company filed two rate cases during the 2023 calendar year and two during the 2024 calendar year, making for a total of four rate hikes since the law took effect in June 2023.

Under DCRF rules, the PUC reviews the rate requests in an accelerated fashion, and interested parties, such as the Steering Committee of Cities Served by Oncor, can intervene in those reviews.

Details of Oncor’s four recent rate filings include:

<u>Docket No. 55190</u>

- Application filed on June 29, 2023.
- Distribution revenue requirement increase requested by utility: $152,777,465.
- Distribution revenue requirement increase granted: $152,508,937 ($268,528 decrease from request).

<u>Docket No. 55525</u>

- Application filed on September 15, 2023.
- Distribution revenue requirement increase requested by utility: $56,536,428.
- Distribution revenue requirement increase granted: $53,536,428 ($3 million decrease from request).

<u>Docket No. 56306</u>

- Application filed on March 1, 2024.
- Distribution revenue requirement increase requested by utility: $81,323,815.
- Distribution revenue requirement increase granted: $81,323,815.

<u>Docket No. 56963</u>

- Application filed on August 16, 2024.
- Distribution revenue requirement increase requested by utility: $90,288,143.
- Distribution revenue requirement increase granted: $90,288,143.

Find out more about ERCOT, the non-profit corporation that oversees the state’s electric power grid, in the glossary and primer from the Steering Committee of Cities Served by Oncor. The 18-page document includes definitions of key ERCOT terms, plus information about the organization’s history, structure and board structure. You can find the publication, “Coming to Terms with ERCOT,” in PDF form on the OCSC Report page at this link.

OCSC Advocates for Consumers in 2024 Securitization Proceeding

Although facing years of Winter Storm Uri-related debt, residential and commercial customers should end up shouldering a smaller portion of it thanks in part to regulatory recommendations made by cities.

Adopted Aug. 29 by the Public Utility Commission as part of a broader set of debt-financing rules, the recommendations should result in indirect benefits for residential and commercial customers. At the same time, certain industrial energy users could end up paying comparatively more.

The Background

In 2021, the Texas Legislature funded several debt-financing programs to soften the short-term pain of spiraling gas and electric energy costs during Winter Storm Uri. Known as "securitized" financing or "securitization," the programs allow for large fiscal obligations to be retired over time with interest.

As has been widely reported, wholesale prices exceeded a regulatory threshold during Winter Storm Uri because of emergency orders issued by the PUC. One such securitization program is designed to address $2.1 billion in excess market costs associated with those controversial regulatory decisions. The securitization program would provide short-term relief for retail electric providers and other "Load Serving Entities" (such as electric cooperatives and municipal utilities) affected by those high prices, with the cost of that relief generally borne by market participants.

One of the recommendations from the OCSC adopted by the PUC would increase the relative share of that burden borne by certain industrial customers. This, in turn, would indirectly lessen the burden on retail electric providers and other LSEs that serve residential and small commercial users.

The Details

In more specific terms, ERCOT, under the program will assess securitization charges to each Load Serving Entity in in accordance with their actual, real-time energy usage. However, transmission voltage customers — that is, certain large industrial users — have the option to "opt-out" of the program. Those that do so wouldn't be eligible to benefit from payments under it norwould they have to make payments to support it.

Under the Aug. 29 PUC ruling, transmission-voltage customers who have had a transfer in ownership will lose the ability to opt-out. All else equal, this should benefit other load serving entities. The OCSC and PUC staff recommended this regulatory interpretation.

Regulatory History

PUC staff earlier filed a petition seeking a declaratory order that transmission-voltage customers, after a transfer in ownership, lose their securitization opt-out status. OCSC also took that position in agency proceedings, arguing that that interpretation was consistent with legislative directives while simultaneously avoiding a disproportionate assessment of securitization charges to residential ratepayers.

Texas Industrial Energy Consumers, a coalition including transmission voltage customers, argued otherwise. Because many transmission voltage customers are owned by the same parent company, TIEC's interpretation would have almost certainly reduced cost savings for non-industrial customers.

Oncor Loses Appeal in Rate Case

On February 22, a District Court Judge denied "with prejudice" an Oncor legal objection relating to a 2022 rate case, a legal action representing the final determination in the case.

The History and Background

Oncor's 2022 rate case resulted in a June 2023 PUC Order on Rehearing that set a 6.65 percent rate of return and ordered a reduction to Oncor's revenues. In September 2023, Oncor filed a petition in District Court in Travis County appealing the PUC's June Order on Rehearing.

In November 2023, the PUC, represented by attorneys with the Texas Attorney General, filed a "Plea to the Jurisdiction" arguing that Oncor failed to meet the requirements for an administrative appeal. On February 22, 2024, a District Court Judge granted the PUC's Plea to the Jurisdiction. Oncor's petition for review of the PUC's decision was denied with prejudice, meaning this is the final determination in the case and Oncor cannot re-file its appeal.

Oncor Reports Increased Revenues in 2024, Anticipates More Spending Going Forward

Oncor reported year-to-date earnings of $800 million, as compared to the $683 million during last year's corresponding nine-month period, according to information released to investors on Nov. 6.

The $117 million increase was driven by overall higher revenues primarily attributable to updated interim rates and new base rates implemented in May 2023, according to the company.

As of September 30, Oncor had 884 active generation and LC&I transmission points of interconnection requests in queue. Generation customers represented 505 of the active requests, of which 44 percent are solar, 44 percent are storage, 7 percent are wind, 4 percent are gas and 1 percent are other.

Oncor also expects to announce a new five-year capital expenditure plan for 2025 through 2029 during the first quarter of 2025 that will project a 40-50 percent increase over its previously announced 2024 through 2028 capital plan of $24.2 billion. The increase is largely driven by the forecasted growth of customer demand within ERCOT, according to Oncor.

About Oncor

Headquartered in Dallas, Oncor Electric Delivery Company operates the largest transmission and distribution system in Texas. The company delivers electricity to more than 4 million homes and businesses and operates more than 143,000 circuit miles of transmission and distribution lines. While Oncor is owned by two investors (indirect majority owner, Sempra, and minority owner, Texas Transmission Investment LLC), it is managed by a separate board of directors.

Arlington City Attorney Molly Shortall Named OCSC Chair

Molly Shortall

OCSC welcomed a new chair in 2024, Arlington City Attorney Molly Shortall. Prior to being named City Attorney in 2022, Ms. Shortall was an assistant city attorney for 15 years. Ms. Shortall has been a licensed attorney since 2006. Congratulations Ms. Shortall!

Ms. Shortall replaced Paige Mims, City Attorney for the City of Plano, who stepped down as OCSC chair at the end of 2023 after serving nine years in the position. Ms. Mims has been a tireless advocate for the organization, and OCSC thanks her for her years of leadership.

Paige Mims

2025 OCSC Meetings
March 6
June 12 (virtual only)
September 11
December 11 (virtual only)

OCSC Officers
Chair—Molly Shortall
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:

Lloyd Gosselink
ATTORNEYS AT LAW

Thomas L. Brocato
(512) 322-5857
tbrocato@lglawfirm.com

Jamie Mauldin
(512) 322-5890
jmauldin@lglawfirm.com