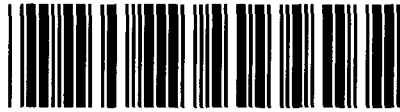


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DOCKET NO. 49518

**SHARYLAND UTILITIES, L.L.C.'S
ANNUAL REPORTS REGARDING
COMPLIANCE WITH FINAL ORDER
IN DOCKET NO. 48929**

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PUBLIC UTILITY COMMISSION

OF TEXAS

**SHARYLAND UTILITIES, L.L.C.'S
2020 ANNUAL COMPLIANCE REPORT PURSUANT TO
THE FINAL ORDER IN DOCKET NO. 48929**

TO THE HONORABLE PUBLIC UTILITY COMMISSION OF TEXAS:

Sharyland Utilities, L.L.C. ("Sharyland") hereby files this 2020 annual compliance report as required by the Public Utility Commission of Texas's ("Commission") final order issued in Docket No. 48929¹ ("2020 Annual Compliance Report"), and respectfully shows the following.

I. Designated Representatives

The designated representatives for purposes of this filing are as follows:

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¹ *Joint Report and Application of Oncor Electric Delivery Company LLC, Sharyland Distribution & Transmission Services, L.L.C., Sharyland Utilities, L.P., and Sempra Energy for Regulatory Approvals under PURA §§ 14.101, 37.154, 39.262, and 39.915, Docket No. 48929, Order (May 9, 2019).*

II. Background

On November 30, 2018, Sharyland Utilities, L.P., Sharyland Distribution & Transmission Services, L.L.C. (“SDTS”), Oncor Electric Delivery Company LLC (“Oncor”), and Sempra Energy filed a report and application for Commission approval of a series of mutually dependent transactions under Public Utility Regulatory Act (“PURA”) §§ 14.101, 37.154, 39.262, and 39.915 in Docket No. 48929. The joint applicants and other parties to that docket entered into an unopposed settlement agreement (the “Stipulation”) that resolved all issues in the proceeding. The Stipulation contained numerous regulatory commitments made by Sharyland, Sharyland Utilities, L.P., Oncor, North Texas Utility, Sempra Energy, and Hunt Consolidated, Inc.

On May 9, 2019, the Commission issued an order in that docket (the “Order”) approving the proposed transactions consistent with the Stipulation, and the transactions closed on May 16, 2019. These transactions resulted in Oncor owning a significant portion of SDTS’s and Sharyland Utilities, L.P.’s assets through a wholly-owned subsidiary (North Texas Utility), and conversion of Sharyland Utilities, L.P. into a Delaware limited liability company, which owns transmission and wholesale distribution assets in the South Texas region. In addition, Sempra Energy acquired an indirect 50% ownership interest in the restructured Sharyland.

The Order required Sharyland to file annual reports for a period of five years after closing regarding compliance with the terms of the Order, including the regulatory commitments, in this Docket No. 49518. This 2020 Annual Compliance Report fulfills that requirement for the first year after closing: May 17, 2019 to May 16, 2020.

III. Report Regarding Compliance

The following findings of fact (“FOF”) and ordering paragraphs (“OP”) from the Order issued in Docket No. 48929 contain Sharyland’s obligations as approved by the Commission in that proceeding. A compliance report accompanies each such obligation below.

FOF 52 “The signatories agreed that Sharyland Utilities, L.L.C. will file Sharyland Utilities, L.P.’s existing tariff and rate schedules, with the wholesale-transmission-service

rate revised consistent with the bifurcation method described above in finding of fact 49,² as a compliance filing within ten days after this Order becomes final.”

Report: Sharyland submitted its revised wholesale transmission service (“WTS”) tariff in Docket No. 49519³ on May 23, 2019, within ten days after the Order became final. On August 5, 2019, Commission Staff recommended that the revised WTS tariff be found in compliance with FOF 49 and OP 13. The Commission approved the tariff on November 15, 2019. Pursuant to the Commission’s order approving the tariff, Sharyland filed a clean copy of the tariff with an effective date of May 17, 2019 (the day after the transactions closed).

FOF 63 “The signatories agreed that Sharyland Utilities, L.L.C. will file a base-rate case no later than December 31, 2020, based on a historical 12-month test year beginning on July 1, 2019 if the proposed transactions close on or before June 30, 2019. If the proposed transactions close after June 30, 2019, the test year will begin on the first day of the month following the closing of the proposed transactions.”

Report: As stated above, the proposed transactions closed before June 30, 2019. Therefore, Sharyland will file its next base rate case by December 31, 2020, based on a historical 12-month test year beginning July 1, 2019.

FOF 68 “The signatories agreed that as long as Oncor and Sharyland Utilities, L.L.C. are affiliates, Oncor may provide operations services to Sharyland Utilities, L.L.C., subject to the following conditions:

- a. Pricing compensates Oncor fully for its direct, overhead, and indirect costs, depreciation on assets acquired or used to provide operations services to Sharyland Utilities, L.L.C., and carrying costs between incurrence and payment for services;
- b. The basis for calculating charges for untimely invoice payment is 5% per annum; and
- c. Within 90 days of closing, Oncor and Sharyland Utilities, L.L.C. will submit to the Commission a fully detailed pricing basis that defines and quantifies the pricing basis of all services and transactions in a manner that would permit independent verification of proper pricing.”

Report: Oncor provides operations services to Sharyland consistent with FOF 68 of the Order. On August 14, 2019, within 90 days after the transactions closed,

² FOF 49: “Under the agreement, separate wholesale-transmission rates and tariffs are established for the North Texas Utility’s assets and Sharyland Utilities, L.L.C.’s assets based on the bifurcation of Sharyland Utilities, L.P.’s current wholesale-transmission-service rate, which is \$3.745003 per kilowatt (kW), on a net plant basis. This method results in approximately 86.15% of Sharyland Utilities, L.P.’s current wholesale-transmission-service rate being charged by the North Texas Utility and approximately 13.85% of Sharyland Utilities, L.P.’s current wholesale-transmission-service rate being charged by Sharyland Utilities, L.L.C. This method results in the following reasonable rates: the North Texas Utility will charge a wholesale-transmission-service rate that is \$3.226341 per kW, and Sharyland Utilities, L.L.C. will charge a WTS rate that is \$0.518662 per kW.”

³ *Compliance Filing of Oncor Electric Delivery Company LLC and Sharyland Utilities, L.L.C. for Revised Tariffs Resulting from Docket No. 48929, Docket No. 49519, Order (Nov. 15, 2019).*

Oncor and Sharyland submitted as a compliance filing in Docket No. 49851⁴ a detailed description of the pricing basis for the operations services that Oncor now provides to Sharyland. On September 16, 2019, Oncor filed corrections to that filing. On September 20, 2019, Commission Staff recommended that the pricing basis, as corrected, be found in compliance with FOF 68. The Commission administrative law judge (“ALJ”) approved the pricing basis on September 23, 2019, and closed Docket No. 49851.

FOF 71 “Oncor, Sharyland Utilities, L.L.C., and Sharyland Utilities, L.P. commit that any costs relating to the cancellation of Sharyland Utilities, L.P.’s interests [in SDTS] will not be recovered from customers.”

Report: No costs relating to the cancellation of Sharyland Utilities, L.P.’s interest in SDTS have been recovered from Sharyland’s customers. Sharyland has not sought to include such costs in rates, and does not plan to do so in its 2020 base rate case or any other proceeding.

FOF 79 “Oncor, Sharyland Utilities, L.P., Sharyland Utilities, L.L.C., and Sempra Energy agreed that the settlement of this proceeding will not preclude any party to this proceeding from taking a position in any future rate case for Oncor, North Texas Utility, or Sharyland Utilities, L.L.C. concerning the prudence of any or all of the costs of the assets that are the subject of the proposed transactions and that have not been previously reviewed for prudence.”

Report: Each party to Docket No. 48929 continues to possess the right to take a position in Sharyland’s 2020 base rate case concerning the prudence of the costs of assets that are owned by Sharyland, were subject of the transactions, and that have not been previously reviewed for prudence.

FOF 81 “Sharyland Utilities, L.P. and Oncor commit to waive the requirement in the asset exchange agreement that an executed future development agreement be delivered at closing. Sharyland Utilities, L.P. and Oncor agreed to withdraw the future development agreement and commit that neither Sharyland Utilities, L.P., nor Sharyland Utilities, L.L.C., nor Oncor, nor any of their affiliates, will execute that agreement. In addition, Sharyland Utilities, L.P., SDTS, and Oncor affirm that none of the joint applicants has any current agreement, promise, or understanding to enter into a new future development agreement or any document of similar scope and applicability.”

Report: Sharyland Utilities, L.P. and Oncor waived the requirement in the asset exchange agreement that an executed future development agreement be delivered at closing, and neither Sharyland nor any of its affiliates executed the future development agreement with Oncor or any of its affiliates. It remains the case that neither Sharyland nor any of its affiliates has a current agreement, promise, or

⁴ *Compliance Filing of Oncor Electric Delivery Company LLC and Sharyland Utilities, L.L.C. Describing Detailed Pricing Basis for Provision of Oncor’s Operations Services to Sharyland Utilities Resulting from Docket No 48929, Docket No. 49851, Order No. 5 Approving Compliance Filing and Closing Docket (Sept. 23, 2019).*

understanding to enter into a new future development agreement or any document of similar scope and applicability with Oncor or any of its affiliates.

FOF 82 “Oncor and Sharyland Utilities, L.P. commit to amend their respective existing codes of conduct to include the North Texas Utility, Sharyland Utilities, L.L.C., or any new affiliates resulting from the proposed transactions and to each separately file its amended code of conduct with the Commission for review and approval.”

Report: Sharyland filed a proposed amended code of conduct on June 4, 2019, in Docket No. 49521.⁵ The proposed amended code of conduct was revised on June 11, 2019. On June 27, 2019, Sharyland filed another revised proposed amended code of conduct to remove a limited waiver previously requested (which was ultimately addressed in a separate proceeding, Docket No. 49689⁶). On July 3, 2019, Commission Staff recommended that Sharyland’s proposed amended code of conduct, as revised, be found in compliance with the Order in Docket No. 48929. The Commission approved Sharyland’s amended code of conduct, as revised, on September 27, 2019.

FOF 83 “Oncor, the North Texas Utility, Sharyland Utilities, L.P., and Sharyland Utilities, L.L.C. commit to provide customers with wholesale-transmission-service rate credits of 90% of the interest savings that each utility realizes as a result of the improved credit quality of the North Texas Utility and Sharyland Utilities, L.L.C., if any, and of debt issuance savings that each utility realizes, if any. Oncor and Sharyland Utilities, L.L.C. commit to each file in separate compliance dockets a calculation of any interest rate savings annually until their next rate cases.”

Report: Contemporaneously with the filing of this 2020 Annual Compliance Report, Sharyland is filing the first of its interest rate/debt issuance savings compliance reports in a compliance docket to be styled *Interest-Rate Savings Compliance Filing of Sharyland Utilities, L.L.C. Resulting from Docket No. 48929*, and proposes to provide its customers with wholesale-transmission-service rate credits consistent with FOF 83.

FOF 84 “Oncor, the North Texas Utility, Sharyland Utilities, L.P., and Sharyland Utilities, L.L.C. commit to provide \$17 million in merger-savings rate credits to customers through wholesale-transmission-service rates, to be paid as follows:

- a. In 2019, Oncor will provide a merger-savings rate credit of \$5 million within 30 days after the Commission’s final order in this proceeding becomes final.
- b. In 2020, Oncor will provide a merger-savings rate credit of \$5 million and Sharyland Utilities, L.L.C. will provide a rate credit of \$2 million by July 1, 2020.

⁵ *Compliance Filing of Oncor Electric Delivery Company LLC and Sharyland Utilities, L.L.C. for Review of Amended Codes of Conduct Resulting from Docket No. 48929*, Docket No. 49521, Order (Sept. 27, 2019).

⁶ *Application of Sharyland Utilities, L.L.C. for a Limited Code of Conduct Waiver*, Docket No. 49689, Order (Jan. 22, 2020).

- c. In 2021, Oncor will provide a merger-savings rate credit of \$5 million by July 1, 2021.
- d. A merger-savings rate-credit factor will be calculated by dividing the applicable merger-savings credit amount by the ERCOT four-coincident-peak (4CP) demand for the previous year. For example, the 2019 factor will be calculated using the 2018 ERCOT 4CP demand. The merger-savings rate credit factor will be applied to each distribution service provider's 4CP demand for the previous year for a one month refund according to the schedule above.
- e. Oncor and Sharyland will each file a compliance tariff rider for each annual merger-savings rate-credit factor for administrative approval before the refund period."

Report: Sharyland will provide a rate credit of \$2 million by July 1, 2020, which will be calculated consistent with FOF 84(d). Sharyland has filed a compliance tariff rider for this credit for administrative approval before the refund period.

FOF 87 "Sharyland Utilities, L.P. currently has \$1.1 million of goodwill associated with the acquisition of Cap Rock recorded in FERC Account 114. In the proposed transactions, Sharyland Utilities, L.P. is receiving \$1.969 million (net book value as of June 30, 2018) of plant acquisition adjustments from SDTS to be recorded in FERC Account 114 on Sharyland Utilities, L.P.'s books. Sharyland Utilities, L.P. commits that neither Sharyland Utilities, L.L.C. nor itself will seek to recover this goodwill or these plant acquisition adjustments. Sharyland Utilities, L.P. commits that Sharyland Utilities, L.L.C. will exclude both the goodwill and the plant acquisition adjustments from the common equity in Sharyland Utilities, L.L.C.'s earnings-monitoring-report filings and in all future rate-case filings."

Report: Sharyland has not recovered the referenced goodwill or plant acquisition adjustments. Sharyland has not sought to recover such goodwill or plant acquisition adjustments, and does not plan to do so in its 2020 base rate case or any other proceeding. Sharyland is excluding both the goodwill and the plant acquisition adjustments from the common equity in Sharyland's earnings monitoring reports and in all future rate case filings.

FOF 89 "Oncor, the North Texas Utility, Sharyland Utilities, L.L.C., and Sempra Energy commit not to seek recovery in rates of any expenses related to the proposed transactions."

Report: No expenses related to the proposed transactions have been recovered in Sharyland's rates. Sharyland has not sought to include such expenses in rates, and does not plan to do so in its 2020 base rate case or any other proceeding.

FOF 90 "Oncor and Sharyland Utilities, L.P. commit that Oncor, the North Texas Utility, and Sharyland Utilities, L.L.C. will not seek recovery of the approximately \$30,000,000 regulatory asset associated with the startup costs incurred at the inception of Sharyland Utilities, L.P. and deferred in Docket No. 41474."

Report: Oncor purchased the approximately \$30 million regulatory asset as part of the transactions. Accordingly, this regulatory asset has not been recovered from Sharyland's customers, Sharyland has not sought to include it in rates, and Sharyland does not plan to seek such recovery in its 2020 base rate case or any other proceeding.

FOF 91 "Oncor commits that it and the North Texas Utility will not seek recovery of any amount of the approximately \$8.9 million regulatory asset related to Sharyland Utilities, L.P.'s rate case expenses that were requested or incurred in Docket No. 45979. Sharyland Utilities, L.P. commits that Sharyland Utilities, L.L.C. will not seek recovery of any rate-case expenses that were requested or incurred in Docket No. 45979."

Report: Oncor received the approximately \$8.9 million regulatory asset related to rate case expenses requested or incurred in Docket No. 45979⁷ as part of the transactions. Accordingly, this regulatory asset has not been recovered from Sharyland's customers, Sharyland has not sought to include it in rates, and Sharyland does not plan to seek such recovery in its 2020 base rate case or any other proceeding.

FOF 92 "Oncor and Sharyland Utilities, L.P. commit that neither the North Texas Utility nor Sharyland Utilities, L.L.C. will amortize or reduce the regulatory liability for excess accumulated deferred income taxes recorded as the result of the Tax Cuts and Jobs Act of 2017 until the amortization is reflected in rates, and they agreed that the disposition of these amounts will be addressed in the next base-rate case proceedings for Oncor and Sharyland Utilities, L.L.C. Additionally, the signatories agreed for all issues related to net operating loss accumulated deferred income tax to be reserved for disposition in future base-rate proceedings."

Report: Sharyland has not amortized or reduced the regulatory liabilities for excess accumulated deferred income taxes recorded as the result of the Tax Cuts and Jobs Act of 2017, and will not do so until the amortization is reflected in Sharyland's rates. Sharyland continues to agree that disposition of these amounts will be addressed in its 2020 base rate case. Further, Sharyland continues to agree that all issues related to net operating loss accumulated deferred income tax are reserved for disposition in future base rate proceedings.

FOF 94 "Other than with respect to the transmission-cost-of-service refund identified in item 6 of schedule F of the Sharyland and SDTS asset schedules attached to the asset exchange agreement, Oncor and Sharyland Utilities, L.P. commit that the entity that owns the assets after consummation of the proposed transactions is the entity that is responsible for filing a reconciliation of rates for those assets under 16 TAC § 25.192(h)(2). Similarly, Oncor and Sharyland Utilities, L.P. commit that if the Commission finds that any amount previously included in interim transmission-cost-of-service updates is unreasonable or unnecessary, the entity that owns the

⁷ Review of Rate Case Expenses Incurred by Sharyland Utilities, L.P. Severed from Docket No. 45414, Docket No. 45979, Order of Dismissal (Aug. 8, 2019).

associated assets after consummation of the proposed transactions will be responsible for refunding any such amounts in the manner prescribed by the Commission.”

Report: Sharyland maintains its commitment that the entity that owns the assets after consummation of the transactions is the entity that is responsible for filing a reconciliation of rates for those assets under 16 TAC § 25.192(h)(2) (other than with respect to the transmission-cost-of-service refund referenced above). Sharyland also maintains its commitment that if the Commission finds that any amount previously included in interim transmission-cost-of-service updates is unreasonable or unnecessary, the entity that owns the associated assets after consummation of the transactions will be responsible for refunding any such amounts in the manner prescribed by the Commission.

FOF 97

“Sharyland Holdings, L.P. (Sharyland Holdings), Sharyland Utilities, L.P. and Sharyland Utilities, L.L.C. agreed that the actions listed below as (a) through (cc) require the consent of Sempra Energy on the terms specified in the Sharyland Holdings limited partnership agreement (the LP agreement) and, where expressly indicated, prior Commission approval. Sempra Energy will retain these consent rights for as long as Sempra Energy retains an indirect ownership interest in Sharyland Utilities, L.L.C., unless the Commission otherwise orders. These consent rights will also be incorporated into the LP agreement and made alterable only with Commission approval.

- a. Approval of Sharyland Utilities, L.L.C.’s annual plan.
- b. Acquiring or submitting to ERCOT any transmission and distribution project that involves the establishment of a new station, has an acquisition price of more than \$3 million, or requires the incurrence or commitment to incur capital expenditures of more than \$3 million per fiscal year to develop a new transmission and distribution project.
- c. Any change in the location of Sharyland Utilities, L.L.C.’s principal place of business.
- d. Any amendment to the organizational documents, including the LP agreement itself. Any amendment will also require prior approval of the Commission to the extent the amendment relates to any condition referenced in this Order.
- e. The creation of any subsidiary of Sharyland Utilities, L.L.C., Sharyland Holdings, or SU Investment Partners, L.P. Prior approval of the Commission is also required to create any such subsidiary.
- f. The issuance, transfer, sale, or disposal by Sharyland Holdings of, or the pledge or the grant of an option with respect to, any securities of Sharyland Holdings or other ownership interest in Sharyland Holdings (other than the issuance of units with respect to capital contributions as provided in section 2.5 of the LP agreement or the issuance and forfeiture of units as provided in section 2.10 of the LP agreement). Such issuance, transfer, sale, or disposal will also require the Commission’s prior approval.

- g. The redemption, purchase, or other acquisition by Sharyland Holdings of any partnership interests or other equity securities of Sharyland Holdings. Any such redemption, purchase, or other acquisition will also require the Commission's prior approval.
- h. The incurrence of debt at Sharyland Utilities, L.L.C. or Sharyland Holdings, except as provided for in Sharyland Utilities, L.L.C.'s annual plan.
- i. Sharyland Holdings or Sharyland Utilities, L.L.C. guaranteeing any obligations other than for Sharyland Holdings or Sharyland Utilities, L.L.C. Any guaranteeing for any entity other than Sharyland Holdings or Sharyland Utilities, L.L.C. will also require the Commission's prior approval.
- j. The commencement of any material legal proceedings or the intentional waiver, payment, discharge, compromise, or settlement of any material pending or threatened legal proceeding.
- k. The release of claims greater than \$100,000.
- l. Any material tax elections.
- m. The initiation, settlement, or compromise of any material legal proceeding or audit relating to taxes.
- n. Any change in audit firms.
- o. Any sale, reorganization, merger, or consolidation of Sharyland Holdings or Sharyland Utilities, L.L.C. These actions will also require the Commission's prior approval.
- p. Any material change to accounting methods, principles, or practices.
- q. Any material change in business lines. Such a change will also require the Commission's prior approval.
- r. The appointment of any executive officers.
- s. Any material change in employees.
- t. Any material changes in the compensation or employee benefits plans of executive officers.
- u. Any material changes in the compensation or employee benefit plans of employees.
- v. Any loan or extension of credit to any officer, manager, or employee.
- w. Any divestiture, contribution, or acquisition of assets that constitute or would constitute more than 10% of the assets of Sharyland Utilities, L.L.C. These actions will also require the Commission's prior approval unless such divestiture, contribution, or acquisition is in the normal course of business of operating, maintaining, or rebuilding existing assets or for the construction by Sharyland Utilities, L.L.C. of assets for which it has received a certificate of convenience and necessity. The 10% threshold will decrease to 5% if Sharyland Utilities, L.L.C. reaches \$500 million in asset value.
- x. Engaging in any projects outside of ERCOT. Such engagement will also require the Commission's prior approval.

- y. The approval of dividends except as provided in the annual plan or tax-sharing agreement.
- z. Transactions between Hunt Consolidated, Inc. and any of its affiliates (collectively, Hunt) and Sharyland Utilities, L.L.C.
- aa. Any dissolution or liquidation of Sharyland Utilities, L.L.C. Such actions will also require the Commission's prior approval.
- bb. Any bankruptcy petition.
- cc. Any regulatory acts as defined in the LP agreement."

Report: The Amended and Restated Limited Partnership Agreement of Sharyland Holdings, L.P. (the LP agreement referenced above) at Section 3.2 and 3.3 and the Amended and Restated Limited Liability Company Agreement of Sharyland Utilities, L.L.C. (the LLC agreement referenced below) at Section 2.2 memorialize Sempra Energy's consent rights, as well as the requirement for prior Commission approval where expressly indicated, with regard to the actions listed in FOF 97(a)–(cc). This was demonstrated by the Sharyland and Sharyland Holdings organizational document filings in Docket No. 48929 on May 6 and 24, 2019 and other findings in the Order. These requirements remain in effect. To the extent Sharyland has taken any of the actions set forth in FOF 97, Sharyland has complied with these requirements. Sharyland has not sought to alter these consent rights or any other requirements from FOF 97, and Sharyland would not seek to do so without the Commission's approval.

FOF 98

"Sharyland Holdings, Sharyland Utilities, L.P., and Sharyland Utilities, L.L.C. agreed to include the following additional regulatory commitments, which require prior Commission approval to modify."

Report: Sharyland reports on each of these additional regulatory commitments below. Sharyland has not sought to modify any of these commitments, and Sharyland would not seek to do so without the Commission's prior approval.

- a. "Sharyland Utilities, L.L.C. will not include cross-default provisions in its debt or credit documents other than for Sharyland Utilities, L.L.C. defaults. Under no circumstances will any debt of Sharyland Utilities, L.L.C. become due and payable or otherwise be rendered in default because of any cross-default or similar provisions of any debt or other agreement of Sharyland Holdings or any affiliate of Sharyland Holdings."

Report: Since closing of the transactions, Sharyland has not included cross-default provisions in its debt or credit documents other than for Sharyland defaults, and there have been no circumstances under which Sharyland's debt would become due and payable or otherwise be rendered in default because of any cross-default or similar provisions of any debt or other agreement of Sharyland Holdings or any affiliate of Sharyland Holdings.

- b. "Sharyland Utilities, L.L.C. and Sharyland Holdings will not include in their debt or credit documents any financial covenants, rating-agency

triggers, or credit metrics related to any entity other than Sharyland Utilities, L.L.C.”

Report: Since closing of the transactions, neither Sharyland nor Sharyland Holdings has included in its debt or credit documents any financial covenants, rating-agency triggers, or credit metrics related to any entity other than Sharyland.

- c. “Sharyland Utilities, L.L.C.’s debt will be limited to its regulatory debt-to-equity ratio.”

Report: Since closing of the transactions, Sharyland has limited its debt to remain in compliance with its regulatory debt-to-equity ratio as determined by the Commission. The regulatory capitalization ratio at December 31, 2019 was 54.7% debt to 45.3% equity.

- d. “Sharyland Utilities, L.L.C. will not incur any debt associated with Sempra Energy’s investment in Sharyland Holdings.”

Report: Since closing of the transactions, Sharyland has not incurred any debt associated with Sempra Energy’s investment in Sharyland Holdings.

- e. “Sharyland Utilities, L.L.C. will not pledge assets with respect to, or guarantee, any debt or obligation of Hunt or Sempra Energy.”

Report: Since closing of the transactions, Sharyland has not pledged any assets with respect to, or guaranteed, any debt or obligation of Hunt or Sempra Energy.

- f. “Sharyland Utilities, L.L.C. will not share credit facilities with Hunt or Sempra Energy.”

Report: Since closing of the transactions, Sharyland has not shared any credit facilities with Hunt or Sempra Energy.

- g. “Sharyland Utilities, L.L.C.’s headquarters will be in Texas.”

Report: Sharyland’s headquarters remain in Dallas, Texas.

- h. “Sharyland Utilities, L.L.C. will not seek to recover any costs associated with a bankruptcy of Hunt or Sempra Energy.”

Report: In the event of a bankruptcy of Hunt or Sempra Energy, Sharyland will not seek to recover any costs associated with such bankruptcy.

- i. “Sharyland Utilities, L.L.C. will not include goodwill in its regulatory books.”

Report: Sharyland will not seek rate recovery for goodwill and will not include goodwill in its Earnings Monitoring Report.

- j. “No pushdown accounting of transaction at Sharyland Utilities, L.L.C.”

Report: Since closing of the transactions, there has been no pushdown accounting associated with the transactions at Sharyland.

- k. “Sharyland Utilities, L.L.C. will not pay dividends or make any disbursement of cash or assets, except for contractual tax payments, if (i) those dividends or other distributions would cause Sharyland Utilities, L.L.C. to be out of compliance with its Commission approved debt-to-equity ratio, or (ii) the Commission has initiated a proceeding seeking to modify Sharyland Utilities, L.L.C.’s ring fence and the Commission, after notice and a hearing, enters an order restricting the payment of dividends or disbursements during the pendency of that proceeding.”

Report: Since closing of the transactions, Sharyland has not paid any dividends or made any disbursement of cash or assets, except for contractual tax payments (if any), that would cause Sharyland to be out of compliance with its Commission approved debt-to-equity ratio. The Commission has not initiated a proceeding seeking to modify Sharyland’s ring fence.

- l. “Sharyland Utilities, L.L.C. and Sharyland Holdings will not own, operate, or construct capital assets outside of ERCOT without the Commission’s prior approval and will not take any action that would subject ERCOT to the jurisdiction of the Federal Energy Regulatory Commission (FERC) or otherwise impair the Commission’s regulatory jurisdiction.”

Report: Since closing of the transactions, neither Sharyland nor Sharyland Holdings has sought to own, operate, or construct capital assets outside of ERCOT. If Sharyland and/or Sharyland Holdings plan to own, operate, or construct capital assets outside ERCOT in the future, they would seek the Commission’s prior approval. Since closing of the transactions, Sharyland and Sharyland Holdings have not taken any action that would subject ERCOT to the jurisdiction of FERC or otherwise impair the Commission’s regulatory jurisdiction.

- m. “Sharyland Utilities, L.L.C.’s assets or stock will not be pledged for any entity other than Sharyland Utilities, L.L.C. by Sharyland Utilities, L.L.C., Sharyland Holdings, Hunt, Sempra Energy, any Sempra Energy affiliate, or any entity with a direct or indirect ownership interest in Sharyland Utilities, L.L.C. or Sharyland Holdings.”

Report: Since closing of the transactions, Sharyland’s assets or stock have not been pledged for any entity other than Sharyland by Sharyland or Sharyland Holdings nor, to the best of Sharyland’s knowledge, by Hunt, Sempra Energy, any Sempra Energy affiliate, or any entity with a direct or indirect ownership interest in Sharyland or Sharyland Holdings.

- n. “Neither Hunt, nor Sempra Energy, nor their respective affiliates will take any action that would subject assets in the ERCOT region to the jurisdiction of the FERC or otherwise impair the Commission’s regulatory jurisdiction, provided, however, FERC continues to have jurisdiction under sections 210,

211, and 212 of the Federal Power Act and may direct transmission and interconnection services over certain existing facilities outside of ERCOT; provided further that the existing reliability and critical infrastructure standards administered by the North American Electric Reliability Corporation (NERC), through delegation of authority from FERC, may affect the operations of assets that are deemed part of the bulk electric system.”

Report: To the best of Sharyland’s knowledge, since closing of the transactions, neither Hunt nor Sempra Energy, nor their respective affiliates, have taken any action that would subject assets in the ERCOT region to the jurisdiction of FERC or otherwise impair the regulatory Commission’s regulatory jurisdiction.

- o. “Sharyland Utilities, L.L.C., Sharyland Holdings, Sempra Energy, and Hunt will not seek to have a NERC regional entity other than the Texas Reliability Entity serve as the lead regional entity responsible for monitoring Sharyland Utilities, L.L.C.’s activities and ensuring compliance with NERC reliability standards.”

Report: Neither Sharyland or Sharyland Holdings nor, to the best of Sharyland’s knowledge, Sempra Energy or Hunt have sought to have a NERC regional entity other than the Texas Reliability Entity serve as the lead regional entity responsible for monitoring Sharyland’s activities and ensuring compliance with NERC reliability standards.

- p. “Sharyland Utilities, L.L.C. will conduct business with its affiliates as if the parties to the transaction were at arm’s length. No transaction with an affiliate will occur without a legitimate business purpose.”

Report: Since closing of the transactions, Sharyland has conducted business with its affiliates as if the parties to the transaction were at arm’s length and has not entered a transaction with an affiliate without a legitimate business purpose.

- q. “Hunt and Sempra Energy will provide the Commission access to the books and records of themselves and their affiliates as necessary to facilitate a Commission audit or review of any affiliate transactions as between Sharyland Utilities, L.L.C., on the one hand, and Sempra Energy, Hunt, or their affiliates, on the other, consistent with PURA.”

Report: To Sharyland’s knowledge, Hunt and Sempra Energy to date have not been requested to provide the Commission access to the books and records of themselves and their affiliates as necessary to facilitate a Commission audit or review of any affiliate transactions as between Sharyland, on the one hand, and Sempra Energy, Hunt, or their affiliates, on the other, consistent with PURA. Sharyland understands that Hunt and Sempra Energy will provide such access if so requested by the Commission.

- r. “Sharyland Utilities, L.L.C. will maintain accurate, appropriate, and detailed books, financial records, and accounts (including checking and other bank accounts) and custodial and other securities safekeeping accounts that are separate and distinct from those of any other entity.”

Report: Since closing of the transactions, Sharyland has maintained accurate, appropriate, and detailed books, financial records, and accounts (including checking and other bank accounts) and custodial and other securities safekeeping accounts that are separate and distinct from those of any other entity.

- s. “Neither Sharyland Utilities, L.L.C. nor any affiliate will assert before the Commission, FERC, or any court of competent jurisdiction that the Commission is preempted under the Federal Power Act (e.g., under a FERC tariff) from making a determination regarding the cost recovery of affiliate costs sought to be allocated to Sharyland Utilities, L.L.C.”

Report: Since closing of the transactions, neither Sharyland nor, to the best of Sharyland’s knowledge, any of its affiliates have asserted before the Commission, FERC, or any court of competent jurisdiction that the Commission is preempted under the Federal Power Act from making a determination regarding the cost recovery of affiliate costs sought to be allocated to Sharyland.

- t. “Before closing, Sharyland Utilities, L.P. will provide a non-consolidation legal opinion that provides that in the event of a bankruptcy of Hunt or Sempra Energy or any affiliates of Sempra Energy, a bankruptcy court will not consolidate the assets and liabilities of Sharyland Utilities, L.L.C. with Hunt or Sempra Energy or any affiliates of Sempra Energy.”

Report: On May 17, 2019, Sharyland filed the non-consolidation legal opinion required by FOF 98(t) in this Docket No. 49518. On August 8, 2019, Commission Staff recommended this filing be found in compliance with the Order. On August 28, 2019, the Commission ALJ found the filing in compliance.

- u. “Sharyland Utilities, L.P. filed a conforming LP agreement for Sharyland Holdings. The LP agreement contains provisions in accordance with the revised settlement agreement.”

Report: The LP agreement that was filed in Docket No. 48929 has not been amended and continues to be the governing document for Sharyland Holdings.

- v. “Sempra Texas Utilities Holdings I, LLC; SU Investment Partners, L.P.; and Shary Holdings, L.L.C. will adhere to all provisions in the LP agreement and in this Order.”

Report: To the best of Sharyland’s knowledge, Sempra Texas Utilities Holdings I, LLC; SU Investment Partners, L.P.; and Shary Holdings, L.L.C. continue to adhere to all provisions in the LP agreement and in the Order.

- w. “Sharyland Utilities, L.L.C.’s formation limited liability company (LLC) agreement contains provisions identical to the LP agreement’s ring-fencing provisions and will not contain provisions that are contrary to the provisions of this Order or the LP agreement. The LLC agreement requires that officers of Sharyland Utilities, L.L.C. have the same fiduciary duties to Sharyland Utilities, L.L.C. as directors of a business corporation organized under Delaware law. Sharyland Utilities, L.L.C. will not amend its organizational documents to waive those duties. Sharyland Utilities, L.P. filed a conforming LLC agreement for Sharyland Utilities, L.L.C. in this docket on May 6, 2019. Any amendment to the LLC agreement will also require the Commission’s prior approval to the extent the amendment relates to any condition referenced in this Order.”

Report: The LLC agreement that was filed in Docket No. 48929 has not been amended and continues to be the governing document for Sharyland. Accordingly, Sharyland’s LLC agreement continues to not contain any provisions contrary to the provisions of the Order or the Sharyland Holdings LP agreement. Sharyland has not amended its LLC agreement or any other organizational document to waive its officers’ fiduciary duties as set forth in FOF 98(w). Sharyland has not amended its LLC agreement in a manner that relates to any condition referenced in the Order, and it would not do so absent the Commission’s prior approval.

- x. “Sharyland Utilities, L.L.C. will file annual reports for a period of five years after closing regarding compliance with the terms stated in this Order.”

Report: This 2020 Annual Compliance Report satisfies the requirement in FOF 98(x) for the first year after closing of the transactions: May 17, 2019 to May 16, 2020. Sharyland will file in this docket similar annual compliance reports for the next four years.

- y. “Sharyland Utilities, L.L.C. will maintain a separate logo and name distinct from all affiliates but will conduct its day-to-day operations through an affiliated shared services company.”

Report: Since closing of the transactions, Sharyland has maintained a separate logo and name distinct from all of its affiliates. Sharyland conducts its day-to-day operations through an affiliated shared services company, Hunt Utility Services.

FOF 99

“Sharyland Utilities, L.P., Sharyland Utilities, L.L.C., Hunt, and Sempra Energy acknowledge the Commission’s jurisdiction to initiate a future proceeding to modify the Sharyland Utilities, L.L.C. ring fence, but they reserve their rights to contest any other aspect of the filing. No party to this proceeding has waived any argument regarding whether the Sharyland Utilities, L.L.C. ring fence should be

modified or the scope of any modification, and all parties reserve their rights to argue their positions in the docket, if such docket is initiated.”

Report: If the Commission initiates a future proceeding to modify the Sharyland ring fence, Sharyland, Hunt, and Sempra Energy continue to possess the rights to contest any other aspect of that filing, and all parties to Docket No. 48929 continue to possess the right to make any argument in that docket regarding whether the Sharyland ring fence should be modified or the scope of any such modification.

OP 3 “Oncor and Sharyland Utilities, L.P. must each amend their existing codes of conduct to include the North Texas Utility, Sharyland Utilities, L.L.C., or any new affiliates resulting from the proposed transactions. Oncor and Sharyland Utilities, L.P. must each separately file its amended code of conduct with the Commission for review and approval in Docket No. 49521, *Compliance Filing of Oncor Electric Delivery Company LLC and Sharyland Utilities, L.L.C. for Review of Amended Codes of Conduct Resulting from Docket No. 48929.*”

Report: As reported above with respect to FOF 82, Sharyland filed a revised proposed amended code of conduct on June 27, 2019, and the Commission approved that filing on September 27, 2019.

OP 9 “Until its next rate case, Sharyland Utilities, L.L.C. must file a report regarding any interest-rate savings or debt issuance savings to the Commission annually and demonstrating a calculation of the credit for the relevant time period as described in finding of fact 83 in a compliance docket to be styled *Interest-Rate Savings Compliance Filing of Sharyland Utilities, L.L.C. Resulting from Docket No. 48929*, using a control number available at that time.”

Report: As reported above with respect to FOF 83, contemporaneously with the filing of this 2020 Annual Compliance Report, Sharyland is filing the first of its interest rate/debt issuance savings reports in a compliance docket to be styled *Interest-Rate Savings Compliance Filing of Sharyland Utilities, L.L.C. Resulting from Docket No. 48929.*

OP 11 “Oncor, Sharyland Utilities, L.P., and Sharyland Utilities, L.L.C. must provide \$17 million in merger-savings rate credits to customers through wholesale-transmission-service rates, to be paid as follows:

- a. In 2019, Oncor must provide a merger-savings rate credit of \$5 million within 30 days after the Commission’s order in this proceeding becomes final.
- b. In 2020, Oncor must provide a merger-savings rate credit of \$5 million and Sharyland Utilities, L.L.C. must provide a rate credit of \$2 million by July 1, 2020.
- c. In 2021, Oncor must provide a merger-savings rate credit of \$5 million by July 1, 2021.
- d. A merger-savings-rate-credit factor must be calculated by dividing the applicable merger savings credit amount by the ERCOT 4CP demand for

the previous year. For example, the 2019 factor must be calculated using the 2018 ERCOT 4CP demand. The merger-savings-rate-credit factor must be applied to each distribution-service provider's 4CP demand for the previous year for a one-month refund according to the schedule above.

- e. Oncor and Sharyland Utilities, L.L.C. must each file a compliance tariff rider for each annual merger-savings-rate-credit factor for administrative approval before the refund period. This compliance tariff rider must be filed in Docket No. 49520, *Compliance Filing of Oncor Electric Delivery Company LLC and Sharyland Utilities, L.L.C. for Approval of Merger-Savings-Rate-Credit Factor Resulting from Docket No. 48929.*"

Report: As reported above with respect to FOF 84, Sharyland will provide a rate credit of \$2 million by July 1, 2020, and Sharyland has filed a compliance tariff rider for this credit for administrative approval before the refund period.

- OP 12 "Oncor, the North Texas Utility, Sharyland Utilities, L.P., and Sharyland Utilities, L.L.C. must provide customers with wholesale-transmission-service rate credits of 90% of the interest savings that each utility realizes as a result of the improved credit quality of the North Texas Utility and Sharyland Utilities, L.L.C., if any, and of debt issuance savings that each utility realizes, if any."

Report: As reported above with respect to FOF 83, contemporaneously with the filing of this 2020 Annual Compliance Report, Sharyland is filing the first of its interest rate/debt issuance savings compliance reports in a compliance docket to be styled *Interest-Rate Savings Compliance Filing of Sharyland Utilities, L.L.C. Resulting from Docket No. 48929*, and proposes to provide its customers with wholesale-transmission-service rate credits consistent with FOF 83.

- OP 13 "Within ten days after the Commission's order in this docket becomes final, Sharyland Utilities, L.L.C. must file, as a compliance filing in Docket No. 49519, *Compliance Filing of Oncor Electric Delivery Company LLC and Sharyland Utilities, L. L.C. for Revised Tariffs Resulting from Docket No. 48929*, the existing tariff and rate schedules for Sharyland Utilities, L.P., with the wholesale-transmission-service rate revised in accordance with finding of fact 49."

Report: As reported above with respect to FOF 52, Sharyland filed its revised WTS tariff at the Commission on May 23, 2019, and the Commission approved the tariff on November 15, 2019, with an effective date of May 17, 2019.

- OP 15 "Sharyland Utilities, L.L.C. must file annual reports for a period of five years after closing regarding compliance with the terms stated in this Order in Docket No. 49518, *Sharyland Utilities, L.L.C.'s Annual Reports Regarding Compliance with Final Order in Docket No. 48929.*"

Report: As reported above with respect to FOF 98(x), this 2020 Annual Compliance Report satisfies this requirement for the first year after closing of the transactions: May 17, 2019 to May 16, 2020. Sharyland will file in this docket similar annual compliance reports for the next four years.

OP 22 “Sharyland Utilities, L.L.C. must implement a ring fence as set forth above in findings of fact 97 and 98. Sharyland Holdings, Sharyland Utilities, L.P., Sharyland Utilities, L.L.C., Hunt, and Sempra Energy must comply with all their respective commitments in the ringfencing provisions.”

Report: As discussed above in the reports on FOF 97 and 98, Sharyland and, to the best of Sharyland’s knowledge, Hunt and Sempra Energy have implemented the required ring fence and has continued to comply with all the commitments in those ring-fencing provisions.

IV. Conclusion

Sharyland is filing this 2020 Annual Compliance Report pursuant to the Commission’s Order issued in Docket No. 48929 on May 9, 2019. The designated representatives listed above may be contacted for any questions regarding this report.

Respectfully Submitted,

/s/ Jeffrey B. Stuart

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Attorneys for Sharyland Utilities, L.L.C.

CERTIFICATE OF SERVICE

I certify that a true and correct copy of the foregoing document was served on all parties to Docket No. 48929, *Joint Report and Application of Oncor Electric Delivery Company LLC, Sharyland Distribution & Transmission Services, L.L.C., Sharyland Utilities, L.P., and Semptra Energy for Regulatory Approvals under PURA §§ 14.101, 37.154, 39.262, and 39.915*, on this 18th day of May, 2020.

/s/ Christianna Goldman

Christianna Goldman