



Control Number: 36157



Item Number: 25

Addendum StartPage: 0

**PROJECT NO. 36157**

**BEFORE THE  
PUBLIC UTILITY COMMISSION  
OF TEXAS**

**COMPLIANCE REPORT OF §  
ONCOR ELECTRIC DELIVERY §  
COMPANY LLC PURSUANT TO §  
THE COMMISSION'S ORDER §  
ISSUED IN DOCKET NO. 35718 §**

**ANNUAL REPORT OF  
ONCOR ELECTRIC DELIVERY COMPANY LLC  
PURSUANT TO COMMISSION SUBSTANTIVE RULE § 25.130(k)(5)**

TO THE HONORABLE PUBLIC UTILITY COMMISSION OF TEXAS:

COMES NOW Oncor Electric Delivery Company LLC ("Oncor") and files this its Annual Report as required by the Public Utility Commission of Texas (the "Commission") in its Substantive Rule § 25.130(k)(5) and respectfully shows the following:

**I. Background**

Commission Substantive Rule § 25.130(k)(5) requires an electric utility with an approved Advanced Metering System ("AMS") deployment plan to file annual reports with the Commission updating the cost information used in setting the AMS surcharge. That rule further provides the following: "The annual reports shall include the actual costs spent to date in the deployment of AMS and the actual net operating cost savings from AMS deployment and how those numbers compare to the projections used to set the surcharge." Oncor's AMS Deployment Plan was approved by the Commission on August 29, 2008, and the AMS surcharge became effective on the first day of Oncor's January 2009 revenue month (December 29, 2008).<sup>1</sup> Through December 31, 2009, Oncor had incurred costs related to AMS of approximately \$190 million, but had only recovered AMS surcharge revenues of \$85 million. This was anticipated in the AMS Surcharge Model because the AMS surcharge is a levelized form of recovery, and this situation will be resolved in later years.

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<sup>1</sup> *Oncor Electric Delivery Company LLC's Request for Approval of AMS Deployment Plan and Request for AMS Surcharge*, Docket No. 35718, August 28, 2009 Order, Finding of Fact No. 32.

## **II. Material Provided**

As required by Substantive Rule § 25.130(k)(5), Attachment A to this Report provides the actual costs that Oncor has spent in its deployment of AMS as of December 31, 2009, the actual net operating cost savings that have been achieved so far in Oncor's AMS deployment, and a comparison of those actual costs to the projections included in the AMS Surcharge Model that served as the basis for the AMS surcharge approved by the Commission in Docket No. 35718. Attachment A to this Report is organized as follows:

- Page 1 of Attachment A presents and compares Oncor's 2009 AMS revenue requirement (based on actual recorded costs) to those estimates included in the AMS Surcharge Model for the year 2009. Comparisons are provided for each classification of costs and savings, including operations and maintenance expenses, meter reading savings, depreciation, allowed return, and taxes. For each line item, page 1 also contains a reference to an attached exhibit that provides further explanation of the difference(s) between the amounts included in the AMS Surcharge Model and the actual incurred costs.
- Page 2 of Attachment A compares Oncor's investment in AMS facilities and equipment (rate base) at December 31, 2009 to the estimates for 2009 AMS rate base-related costs that are reflected in the AMS Surcharge Model for purposes of calculating Oncor's allowable return. Included in this comparison is Oncor's investment in AMS meters, communication networks, information technology systems and hardware, regulatory assets and liabilities, and other rate base-related items. Line items on page 2 also contain a reference to an attached exhibit that provides further explanation of the difference(s) between the amounts included in the AMS Surcharge Model and the actual incurred costs.
- Pages 3 through 37 of Attachment A are the exhibits referred to on pages 1 and 2 of Attachment A. Each of these exhibits identifies whether the subject costs were included in the AMS Surcharge Model, and if they were, where in that Model the costs were included. Each exhibit also describes the costs and explains the difference(s) between the amounts that are contained in the AMS Surcharge Model and the actual incurred costs.

## **III. Variance Explanations**

As reflected in Attachment A, the variances between the projected costs included in Oncor's AMS Surcharge Model and Oncor's actual costs are the result of a variety of factors.

Some of the variances between the cost estimates included in the AMS Surcharge Model and Oncor's actual costs are caused simply because of timing assumptions in the AMS Surcharge Model. For example, the AMS Surcharge Model, which is an annual model, assumed an annual interest rate applied to year-end rate base, and Oncor actually applies an interest rate to month-end rate base. The actual interest expense was lower than assumed in the AMS Surcharge Model due to a lower rate base throughout the year. See Attachment A, p. 1, line 16 and Exhibit 1-N. Similarly, the AMS Surcharge Model assumed an annual return on equity ("ROE") rate applied to year-end rate base, and Oncor actually applies an ROE rate to month-end rate base. The actual ROE amount was lower than assumed in the AMS Surcharge Model due to a lower rate base throughout the year. See Attachment A, p. 1, line 17 and Exhibit 1-O. Another example of a variance caused by timing is the variance between the expenditures assumed for Total Communication Networks expenditures in the AMS Surcharge Model for 2009 and actual expenditures for 2009. Because of the unavailability of the PLC meter devices in 2009, Oncor suspended installation of the PLC Communication Network, but the AMS Surcharge Model assumed that significantly more of the PLC Communication Network would be installed in 2009. See Attachment A, p. 2, line 8 and Exhibit 2-B.

When developing the cost estimates to be included in the AMS Surcharge Model for information technology ("IT") systems needed for the deployment of AMS, Oncor used the best available information to develop high level, preliminary estimates for the level of effort required to develop, integrate, and implement the needed IT Systems. When Oncor developed those cost estimates in 2008, the identification of required AMS functionalities in Project No. 34610 was not complete. In addition, because Oncor developed a preliminary design of the IT systems at the time the estimates for the AMS Surcharge Model were prepared and not a detailed design, it was not able to identify all needed requirements, or the full costs of implementing those requirements. Since the preparation of those initial cost estimates, the industry standards and best practices associated with the IT systems supporting advanced metering systems have also significantly evolved, making the systems more complex and expensive than originally anticipated. Software costs were also higher than originally estimated because certain new or updated systems became necessary as the full IT requirements became known. See Attachment A, p. 2, line 17 and Exhibit 2-C.

As can be seen in this Report, there are instances in which the actual costs are lower than anticipated in the AMS Surcharge Model, and those instances could fully or partially offset those instances in which the actual costs are higher than anticipated in the AMS Surcharge Model. During the reconciliation proceedings required by Substantive Rule § 25.130(k)(6), the Commission will review all costs recovered through the AMS surcharge to determine whether those costs were reasonable and necessary. As noted above, pages 3 through 37 of Attachment A provide more detailed explanations of the variances shown on pages 1 and 2 of Attachment A.

#### **IV. Notice**

Oncor is not seeking to update its AMS surcharge in this proceeding, and as a result, under Substantive Rule § 25.130(k)(5), the filing of this report is not a ratemaking proceeding. As such, Oncor is filing this Annual Report in Project No. 36157, the project in which it submits its Monthly Compliance Reports. Oncor also intends to post this report on its Smart Texas website.

#### **V. Conclusion**

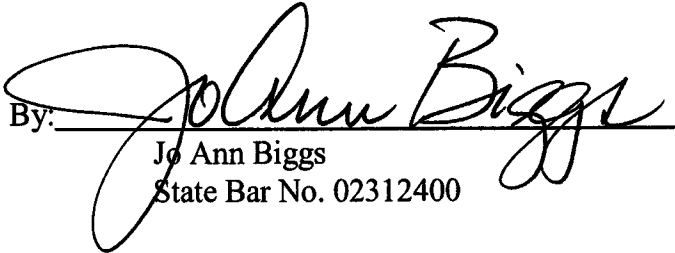
A surcharge such as the one the Commission approved for Oncor's AMS Deployment Plan is a unique form of cost recovery provided by the Texas Legislature and implemented by the Commission to encourage the deployment of advanced meters in Texas. While Oncor's deployment of advanced meters is planned to be complete in 2012, the related surcharge is currently scheduled to be in place until December 2019. As a result of a relatively short deployment period but a longer cost recovery period, cost recovery in any year does not correspond directly to the costs incurred by the Company during that year.

Finding of Fact No. 49 in the Commission's Order in Docket No. 35718 required Oncor to "establish a reasonable regulatory asset or liability account in which the difference between the AMS surcharges billed and the net revenue requirements, based on actual expenses (net of the reductions specified in the preceding findings of fact 28 and 31) and net investment in AMS, are recorded." As reflected on p. 2 of Attachment A, line 39, Oncor has complied with that directive and captured the differences between the levelized surcharge revenues and the actual AMS costs for 2009. This regulatory asset or regulatory liability represents "deferred costs" or "deferred revenues." At the end of the AMS Surcharge period, any balances remaining in either a regulatory asset or regulatory liability account would represent costs to be either collected from or returned to customers.

As required by Finding of Fact No. 73 in the Commission's Order in Docket No. 35718, Oncor will file a reconciliation proceeding in 2011 pursuant to Substantive Rule § 25.130(k)(6).

**Respectfully submitted,**

**Vinson & Elkins LLP**

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**ATTORNEYS FOR ONCOR ELECTRIC DELIVERY  
COMPANY LLC**

**Oncor Electric Delivery Company LLC**  
**Annual Report of AMS Costs and Savings Detail**  
**Cumulative as of 12/31/2009**  
**\$ Millions**

| Line Number | Costs/Savings Description                 | Year-End<br>2009<br>(Original Estimate) | Year-End<br>2009<br>(Actual) | Actuals<br>Over(Under)<br>Original Estimate | Exhibit     |
|-------------|---|---|------------------------------|---|-------------|
| 1           | Low Income In-Home Monitor Program        | 2.50                                    | 0.15                         | (2.35)                                      | Exhibit 1-A |
| 2           | Back Office (excludes IT)                 | 1.52                                    | 0.31                         | (1.21)                                      | Exhibit 1-B |
| 3           | Field Operations                          | 1.47                                    | 0.13                         | (1.34)                                      | Exhibit 1-C |
| 4           | Web Portal                                | 1.10                                    | 1.26                         | 0.16  | Exhibit 1-D |
| 5           | IT  | 9.01                                    | 9.35                         | 0.34  | Exhibit 1-E |
| 6           | Regulatory Asset Amortization             | 0.51                                    | 0.34                         | (0.18)                                      | Exhibit 1-F |
| 7           | Legal & Consulting                        | 0.00                                    | 0.70                         | 0.70  | Exhibit 1-G |
| 8           | Expedited Switches                        | 0.00                                    | 0.70                         | 0.70  | Exhibit 1-H |
| 9           | Meter Reading Savings                     | (0.84)                                  | (0.60)                       | 0.24  | Exhibit 1-I |
| 10          | Pension and OPEB Savings                  | 0.00                                    | 0.00                         | 0.00  | Exhibit 1-J |
| 11          | <b>Total O&amp;M Costs Net of Savings</b> | <b>15.26</b>                            | <b>12.32</b>                 | <b>(2.94)</b>                               |             |
| 12          | Meter Depreciation                        | 8.31                                    | 6.30                         | (2.01)                                      | Exhibit 1-K |
| 13          | Communication Networks Depreciation       | 2.19                                    | 1.56                         | (0.64)                                      | Exhibit 1-L |
| 14          | IT Systems Depreciation and Amortization  | 5.17                                    | 3.08                         | (2.09)                                      | Exhibit 1-M |
| 15          | <b>Total Depreciation</b>                 | <b>15.68</b>                            | <b>10.94</b>                 | <b>(4.74)</b>                               |             |
| 16          | Interest Expense                          | 7.17                                    | 1.81                         | (5.36)                                      | Exhibit 1-N |
| 17          | Return on Equity                          | 7.20                                    | 1.81                         | (5.39)                                      | Exhibit 1-O |
| 18          | <b>Total Return</b>                       | <b>14.37</b>                            | <b>3.61</b>                  | <b>(10.75)</b>                              |             |
| 19          | Ad Valorem Tax - AMS                      | 0.53                                    | 0.21                         | (0.32)                                      | Exhibit 1-P |
| 20          | Ad Valorem Tax Offset - Old Meters        | 0.00                                    | (0.03)                       | (0.03)                                      | Exhibit 1-Q |
| 21          | Texas Gross Margin Tax                    | 0.35                                    | 0.20                         | (0.15)                                      | Exhibit 1-R |
| 22          | Federal Income Taxes                      | 3.88                                    | 1.04                         | (2.84)                                      | Exhibit 1-S |
| 23          | <b>Total Taxes</b>                        | <b>4.76</b>                             | <b>1.42</b>                  | <b>(3.34)</b>                               |             |
| 24          | <b>Total 2009 Revenue Requirement</b>     | <b>50.06</b>                            | <b>28.29</b>                 | <b>(21.77)</b>                              |             |

**Oncor Electric Delivery Company LLC**  
**Annual Report of AMS Rate Base Detail**  
**Cumulative as of 12/31/2009**

\$ Millions

| Line Number | Rate Base Description  | * Year-End<br>2009<br>(Original Estimate) | * Year-End<br>2009<br>(Actual) | Actuals<br>Over(Under)<br>Original Estimate | Exhibit     |
|-------------|--|---|--------------------------------|---|-------------|
| 1           | <b>Meters</b>  |   |                                |   |             |
| 2           | Meters (Including Stock Shop Meters, Revenue Security Material, Failure Reserve) | 82.68                                     | 82.86                          | 0.18  |             |
| 3           | Meter Installation and Meter Handling  | 28.60                                     | 19.18                          | (9.42)                                      |             |
| 4           | Project Management   | 0.00                                      | 0.40                           | 0.40  |             |
| 5           | <b>Total Meters Expenditures</b>   | <u>111.28</u>                             | <u>102.44</u>                  | <u>(8.84)</u>                               | Exhibit 2-A |
| 6           | <b>Communication Networks</b>  |   |                                |   |             |
| 7           | RF Network   | 14.99                                     | 6.63                           | (8.36)                                      |             |
| 8           | PLC Network  | 7.44                                      | 3.10                           | (4.33)                                      |             |
| 9           | Capital Network Maintenance  | 1.71                                      | 0.00                           | (1.71)                                      |             |
| 10          | Project Management   | 0.85                                      | 0.00                           | (0.85)                                      |             |
| 11          | Loadings   | 4.68                                      | 1.83                           | (2.85)                                      |             |
| 12          | <b>Total Communication Networks Expenditures</b>                                 | <u>29.66</u>                              | <u>11.56</u>                   | <u>(18.10)</u>                              | Exhibit 2-B |
| 13          | <b>IT Systems</b>  |   |                                |   |             |
| 14          | Hardware   | 10.83                                     | 2.00                           | (8.82)                                      |             |
| 15          | Software Services and System Integration   | 42.06                                     | 62.94                          | 20.88                                       |             |
| 16          | Software Licenses  | 3.25                                      | 7.78                           | 4.53  |             |
| 17          | <b>Total IT Systems Expenditures</b>   | <u>56.13</u>                              | <u>72.72</u>                   | <u>16.59</u>                                | Exhibit 2-C |
| 18          | <b>Web Portal Expenditures</b>   | 5.41                                      | 7.99                           | 2.58  | Exhibit 2-D |
| 19          | <b>Mobile Experience Center Expenditures</b>                                     | 1.05                                      | 1.24                           | 0.19  | Exhibit 2-E |
| 20          | <b>Total Capital Expenditures</b>  | <u>203.53</u>                             | <u>195.95</u>                  | <u>(7.59)</u>                               |             |
| 21          | Construction Work in Progress  | 0.00                                      | 34.06                          | 34.06                                       | Exhibit 2-F |
| 22          | <b>Gross Plant</b>   | <u>203.53</u>                             | <u>161.89</u>                  | <u>(41.65)</u>                              |             |
| 23          | Accumulated Depreciation   | (15.32)                                   | (10.51)                        | 4.81  | Exhibit 2-G |
| 24          | <b>Net Plant in Service</b>  | <u>188.22</u>                             | <u>151.38</u>                  | <u>(36.84)</u>                              |             |
| 25          | <b>Inventory</b>   | 0.00                                      | 1.68                           | 1.68  | Exhibit 2-H |
| 26          | <b>Prepayments</b>   | 0.00                                      | 0.62                           | 0.62  | Exhibit 2-I |
| 27          | <b>Regulatory Assets</b>   |   |                                |   |             |
| 28          | Severance - Meter Readers/Installers   | 0.18                                      | 0.00                           | (0.18)                                      | Exhibit 2-J |
| 29          | Customer Education   | 3.53                                      | 4.73                           | 1.21  | Exhibit 2-K |
| 30          | Solutions Cube Group LLC   | 0.08                                      | 0.11                           | 0.04  | Exhibit 2-L |
| 31          | Docket No. 35718 Costs - Deferred Assets   | 1.80                                      | 0.72                           | (1.08)                                      | Exhibit 2-L |
| 32          | Project 34610 - travel related expenses  | 0.07                                      | 0.04                           | (0.03)                                      | Exhibit 2-L |
| 33          | <b>Total Regulatory Assets</b>   | <u>5.65</u>                               | <u>5.61</u>                    | <u>(0.04)</u>                               |             |
| 34          | Regulatory Asset Amortization  | (0.51)                                    | (0.34)                         | 0.18  | Exhibit 2-M |
| 35          | <b>Net Regulatory Assets</b>   | <u>5.13</u>                               | <u>5.27</u>                    | <u>0.14</u>                                 |             |
| 36          | Net Removal Cost Amortization  | (0.36)                                    | (0.30)                         | 0.06  | Exhibit 2-N |
| 37          | Accumulated Deferred Taxes   | (23.58)                                   | (48.84)                        | (25.25)                                     | Exhibit 2-O |
| 38          | <b>Ending Rate Base</b>  | <u>169.41</u>                             | <u>109.81</u>                  | <u>(59.59)</u>                              |             |
| 39          | <b>Regulatory Asset / (Liability)</b>  | NA  | (37.02)                        | NA  | Exhibit 2-P |
| 40          | <b>Total Rate Base with Regulatory Asset / (Liability)</b>                       | <u>NA</u>                                 | <u>72.79</u>                   | <u>NA</u>                                   |             |

\* Amounts represent cumulative AMS capital

**Low Income In-Home Monitor Program Costs**

**Exhibit 1-A**

**Surcharge Model Reference:**

Tab Name: O&M Cost  
 Line Number: 47  
 Name: Low Income In-Home Display Device

**Description of Costs:**

As required by Finding of Fact No 64 in the Commission's Order in Docket No. 35718, Oncor included \$10 million in the AMS Surcharge to cover the costs of providing in-home monitors to low-income customers, the associated distribution and administrative costs of that program, and the costs of training and customer education efforts related to the in-home monitors. For the year 2009, the AMS Surcharge Model reflected \$2.5 million in projected costs for the in-home monitor program, which was based on an allocation of the \$10 million in low-income in-home monitor costs evenly over the years 2009 - 2012.

**Estimate vs. Year-End Actual:**

|  | Year-End            |                 | Actual                                     |
|--|---------------------|-----------------|--|
|  | 2009                | 2009            |  |
| \$ Millions                              | <u>(Orig. Est.)</u> | <u>(Actual)</u> | <u>Over (Under)</u><br><u>vs. Estimate</u> |
| Low Income In-Home Monitor Program Costs | 2.50                | 0.15            | (2.35)                                     |

**2009 Variance Explanation:**

The actual cost of \$149,000 incurred in 2009 related to consulting and legal fees for the preparation of a Request for Proposals for potential in-home monitoring devices and reviewing prospective vendor responses. After review of the submitted responses to Oncor's Request for Proposals, Oncor and the Commission Staff agreed to postpone choosing a vendor for the low-income monitors until the summer of 2010 to allow the in-home monitor market to mature, potentially driving down unit prices, and to allow utilities more time to gain operating experience with their respective AMS systems.

**Exhibit 1-B Back Office (excludes IT) Operating Costs**

**Surcharge Model Reference:**

Tab Name: O&M Cost  
 Line Number: 40  
 Line Item Description: Back Office

**Description of Costs:**

In the AMS Surcharge Model, back office O&M costs consisted of three cost components: operating system licenses, server leases, and back office operating costs. The operating system license cost represents an annual operating fee paid to a third party to develop and maintain the operating system software. Server leases represent the lease costs of servers to host the operating system software. Back office operating costs include monitoring meter data collection, exception handling, staffing for the operating system, network servers, and transmitting service orders.

**Estimate vs. Year-End Actual:**

| \$ Millions                               | Year-End<br>2009<br><u>(Orig. Est.)</u> | Year-End<br>2009<br><u>(Actual)</u> | Actual<br>Over (Under)<br>vs. Estimate |
|---|---|-------------------------------------|--|
| Back Office (excludes IT) Operating Costs | 1.52                                    | 0.31                                | (1.21)                                 |

**2009 Variance Explanation:**

| \$ Millions                 | Year-End<br>2009<br><u>(Orig. Est.)</u> | Year-End<br>2009<br><u>(Actual)</u> | Actual<br>Over (Under)<br>vs. Estimate | Variance Explanation   |
|-----------------------------|---|-------------------------------------|--|--|
| Operating System License    | 0.27                                    | 0.00                                | (0.27)                                 | Instead of including the cost of operating system licenses in the Back Office category, Onco included the actual incurred cost of system licenses in the IT category of costs, which is reflected in Exhibit 1-E.  |
| Back Office Operating Costs | 1.25                                    | 0.31                                | (0.94)                                 | The AMS Surcharge Model included back office operating costs for three full-time employees and 30% of a manager's salary in 2008 and five full-time employees and 40% of a manager's salary in 2009. There were two actual full-time employees in 2008 and three actual full-time employees in 2009. |
| <b>Total</b>                | <u>1.52</u>                             | <u>0.31</u>                         | <u>(1.21)</u>                          |  |

**Exhibit 1-C Field Operations Costs**

**Surcharge Model Reference:**

Tab Name: O&M Cost  
 Line Number: 41  
 Line Item Description: Field Operations

**Description of Costs:**

In the AMS Surcharge Model, Field Operations costs consisted of two major cost components: network maintenance and network backhaul. Network maintenance reflected the estimated cost of field operations technicians who were to maintain the AMS network and the costs to monitor and maintain AMS network equipment. Network Backhaul reflected the estimated lease cost for AMS backhaul communications.

**Estimate vs. Year-End Actual:**

| \$ Millions                 | Year-End             | Year-End         | Actual                       |
|-----------------------------|----------------------|------------------|------------------------------|
|                             | 2009<br>(Orig. Est.) | 2009<br>(Actual) | Over (Under)<br>vs. Estimate |
| Network Maintenance         | 1.42                 | 0.06             | (1.36)                       |
| PLC and RF Network Backhaul | 0.05                 | 0.07             | 0.02                         |
| <b>Total</b>                | <b>1.47</b>          | <b>0.13</b>      | <b>(1.34)</b>                |

**2009 Variance Explanation:**

**Network Maintenance**

The AMS Surcharge Model assumed 0.25 FTEs in 2008 and two FTEs in 2009 and the related transportation and materials costs. Actual expenditures incurred in 2009 in the amount of \$61,000 reflect material costs for testing equipment. No maintenance was required in 2008 and 2009.

**PLC Network Backhaul**

The AMS Surcharge Model included an amount of \$48,515 for the PLC network based on 23 collectors installed in 2008 and 16 additional collectors installed in 2009 at a lease cost of \$768 per collector. Due to the delay in PLC meter installations (because the PLC meters were not available), network backhaul installations for PLC meters were suspended in 2009.

**RF Network Backhaul**

No RF backhaul costs were assumed in the AMS Surcharge Model since Oncor did not anticipate leasing any bandwidth for the RF network. Actual RF backhaul costs of \$71,000 were incurred in 2009 for bandwidth leasing via wireless technology as a temporary backhaul solution. As mentioned on Exhibit 2-B, permanent backhaul solutions are currently being evaluated.

**Exhibit 1-D**

**Web Portal Costs**

**Surcharge Model Reference:**

Tab Name: O&M Costs  
 Line Number: 43  
 Line Item Description: Software Maintenance (Web Portal)

**Description of Costs:**

The initial estimate for O&M costs associated with the web portal that was included in the AMS Surcharge Model was based on the original Oncor Meter Data Portal, the functional requirements contemplated at the time of the AMS Surcharge filing, and estimates from multiple vendors. Neither the required web portal capabilities nor HAN requirements were completely defined when the AMS Surcharge was filed.

**Estimate vs. Year-End Actual:**

|                  | Year-End             |                  | Actual<br>Over (Under)<br>vs. Estimate |
|------------------|----------------------|------------------|--|
|                  | 2009<br>(Orig. Est.) | 2009<br>(Actual) |  |
| Web Portal Costs | 1.10                 | 1.26             | 0.16                                   |

**2009 Variance Explanation:**

Actual costs incurred during 2009 were higher than estimated in the AMS Surcharge Model due to increased functionality and technical requirements that the market established for the web portal through Project No. 34610. After Oncor filed Docket No. 35718, the PUC Advanced Metering Implementation Team ("AMIT") continued to develop and modify web portal and HAN requirements in Project No. 34610. The base requirements were not finalized until May 2009, and the technical requirements were not complete until late 2009. Oncor's actual costs of \$1.26 million incurred in 2009 reflect preparations for operating and maintaining a web portal that fully meets the requirements defined in Project No. 34610.

**Exhibit 1-E IT Costs**

**Surcharge Model Reference:**

Tab Name: O&M Cost  
 Line Number: 43  
 Line Item Description: Software Maintenance/Web Portal

**Description of Costs:**

IT costs include software development and integration of the IT server and network environments. To develop the estimate of these costs used in the AMS Surcharge Model, Oncor used estimated ongoing operation costs for system maintenance and operation. Other expenses include software licenses, business operations, and project expenses.

**Estimate vs. Year-End Actual:**

| \$ Millions | Year-End                    | Year-End                | Actual                              |
|-------------|-----------------------------|-------------------------|-------------------------------------|
|             | 2009<br><u>(Orig. Est.)</u> | 2009<br><u>(Actual)</u> | Over (Under)<br><u>vs. Estimate</u> |
| IT Costs    | 9.01                        | 9.35                    | 0.34                                |

**2009 Variance Explanation:**

At the end of the third quarter of 2009, Oncor made the decision to lease, rather than purchase, server and network equipment used to support AMS functions because it was the least-cost approach for securing the equipment. As a result, installation costs of \$3.1 million that would have been charged to capital were instead expensed to O&M. Because IT applications were placed into production later than originally anticipated in the AMS Surcharge Model, operating costs were incurred later than contemplated in the AMS Surcharge Model. The AMS Surcharge Model did not include costs for training development, training documentation, and personnel instruction. The actual cost for training development, training documentation, and personnel instruction for 2009 was approximately \$600,000. Additionally, Oncor recorded the actual costs of server leases in the amount of \$323,000 to IT costs.

**Regulatory Asset Amortization**

**EXHIBIT 1-F**

**Surcharge Model Reference:**

Tab Name: Reg Assets  
Line Number: 34  
Line Item Description: Total Book Amortization

**Description of Costs:**

Finding of Fact No. 50 in the Commission's Order in Docket No. 35718 authorized Oncor to recover in the AMS Surcharge its costs associated with the AMS proceeding, costs of the customer education program, employee severance costs, and costs of participation in the Commission's Project No. 34610. In the AMS Surcharge Model, regulatory assets for these estimated costs were established. The balances in the regulatory assets are amortized monthly over the remaining life of the AMS surcharge.

**Estimate vs. Year-End Actual:**

|                               | <u>Year-End 2009 (Orig. Est.)</u> | <u>Year-End 2009 (Actual)</u> | <u>Actual Over (Under) vs. Estimate</u> |
|-------------------------------|-----------------------------------|-------------------------------|---|
| Regulatory Asset Amortization | 0.51                              | 0.34                          | (0.18)                                  |

Variance rounds to (0.18) at two decimal place presentation

**2009 Variance Explanation:**

|   | <u>Year-End 2009 (Orig. Est.)</u> | <u>Year-End 2009 (Actual)</u> | <u>Actual Over (Under) vs. Estimate</u> | <b>Variance Explanation</b>  |
|---|-----------------------------------|-------------------------------|---|--|
| <b>\$ Millions</b>  |                                   |                               |   |  |
| Amortization of costs associated with Docket No. 35718 and cost of participation in Project No. 34610 | 0.18                              | 0.06                          | (0.10)                                  | The AMS Surcharge Model included an estimate of \$1.95 million for the cost of Docket No. 35718, and the cost of participating in Project No. 34610. With an assumed 11-year amortization, the 2009 regulatory asset amortization in the AMS Surcharge Model was estimated to be \$0.18 million. The actual regulatory asset balance through 2009 was approximately \$0.9 million. This lower actual balance drove a lower actual amortization of \$0.08 million, which is \$.10 million below the amount assumed in the AMS Surcharge Model. See Exhibit 2-L for the actual level of costs incurred.    |
| Amortization of costs of customer education program   | 0.32                              | 0.26                          | (0.06)                                  | The AMS Surcharge Model included estimates for the customer education program for 2009 of \$3.525 million. With an assumed 11-year amortization, the 2009 regulatory asset amortization in the AMS Surcharge Model was \$0.32 million. The actual regulatory asset balance through 2009 was approximately \$4.9 million. Actual amortization for 2009 was \$0.26 million due to the actual costs being incurred later in the year than anticipated in the AMS Surcharge Model. See Exhibit 2-K for additional detail regarding the actual costs incurred for the customer education program during 2009. |
| Amortization of employee severance costs  | 0.02                              | 0.00                          | (0.02)                                  | No employee severance costs were incurred in 2009.   |
| <b>Total Regulatory Asset Amortization</b>  | <b>0.51</b>                       | <b>0.34</b>                   | <b>(0.18)</b>                           | <b>Variance rounds to (0.18) at two decimal place presentation.</b>  |

**Exhibit 1-G Legal and Consulting Costs**

**Surcharge Model Reference:** Not in AMS Surcharge Model

**Description of Costs:**

This category includes consultant and legal costs incurred in preparing Oncor's application for funding under the Energy Independence & Security Act, as required by Finding of Fact No. 70 in the Commission's Order in Docket No. 35718 and for on-going AMS related legal and consulting costs for activities such as preparing compliance filings and determining pension and OPEB-related meter reader costs, respectively.

**Estimate vs. Year-End Actual:**

| \$ Millions                | Year-End                    | Year-End                | Actual                              |
|----------------------------|-----------------------------|-------------------------|-------------------------------------|
|                            | 2009<br><u>(Orig. Est.)</u> | 2009<br><u>(Actual)</u> | Over (Under)<br><u>vs. Estimate</u> |
| Legal and Consulting Costs | 0.00                        | 0.70                    | 0.70                                |

**2009 Variance Explanation:**

No legal and consulting costs were included in the AMS Surcharge Model for these activities. The actual costs for 2009 reflected approximately \$0.5 million for Oncor's application for federal stimulus money. The remaining \$0.2 million reflected legal costs incurred and costs incurred for an actuarial study for meter reader pension/OPEB costs.

**Exhibit 1-H**

**Expedited Switches Costs**

**Surcharge Model Reference:**

Not in AMS Surcharge Model

**Description of Costs:**

On July 5, 2009, the Commission revised Substantive Rule 25.474 to expedite customer switching timelines. As a result, beginning on August 16, 2009, the transmission and distribution utilities are required to complete the new no-cost "standard switch" request within a seven-day period from the receipt of the request. Pursuant to Substantive Rule 25.474(p), Oncor has elected to include the incremental cost of providing a seven-day expedited switch in the AMS surcharge as an annual expense.

**Estimate vs. Year-End Actual:**

| \$ Millions              | Year-End                    | Year-End                | Actual                              |
|--------------------------|-----------------------------|-------------------------|-------------------------------------|
|                          | 2009<br><u>(Orig. Est.)</u> | 2009<br><u>(Actual)</u> | Over (Under)<br><u>vs. Estimate</u> |
| Expedited Switches Costs | 0.00                        | 0.70                    | 0.70                                |

**2009 Variance Explanation:**

When Oncor filed its request for an AMS Surcharge in Docket No. 35718 on May 28, 2008, Substantive Rule 25.474 had not yet been modified to address expedited switches. Therefore, the cost of expedited switching was not reflected in the AMS Surcharge Model. The \$0.7 million of actual costs incurred in 2009 represent one-time costs to modify Oncor's billing systems to support the new requirements, the cost of adding 17 FTEs for the final four months of 2009, and the cost of existing embedded employees who perform these activities that are no longer provided for in Oncor's discretionary revenues as of August 16, 2009.

**Exhibit 1-I Meter Reading Savings**

**Surcharge Model Reference:**

Tab Name: Customer Service Benefits  
 Line Number: 7  
 Line Item Description: Meter Reading Savings

**Description of Costs:**

The AMS Surcharge Model estimated total meter reading savings of \$176 million through the year 2019, and assumed that 329 meter reader and meter installer positions would be affected as a result of the deployment of AMS by year-end 2012. For 2009, the AMS Surcharge Model identified meter reading savings of \$0.84 million.

**Estimate vs. Year-End Actual:**

| \$ Millions           | Year-End            | Year-End        | Actual              |
|-----------------------|---------------------|-----------------|---------------------|
|                       | 2009                | 2009            | Over (Under)        |
|                       | <u>(Orig. Est.)</u> | <u>(Actual)</u> | <u>vs. Estimate</u> |
| Meter Reading Savings | (0.84)              | (0.60)          | 0.24                |

**2009 Variance Explanation:**

During 2009, Oncor achieved actual total savings in the amount of \$0.6 million due to reductions in the costs of meter reading labor, certain employee benefits, taxes, and related facilities and equipment. Because Oncor deployed meters later throughout the year than assumed in the AMS Surcharge Model, it did not achieve the full amount of meter reading savings contemplated in the AMS Surcharge Model.

**EXHIBIT 1-J Pension and OPEB Savings**

**Surcharge Model Reference:** Not in AMS Surcharge Model

**Description of Costs:**

Finding of Fact No. 28 in the Commission's Order in Docket No. 35718 directed Oncor to increase the savings from the termination of meter readers based on amounts to be determined and provided by Oncor's actuary in accordance with application of Statement of Financial Accounting Standards ("FAS") Nos. 87 (Pensions) and 106 (OPEBs) and include the results of that determination in the first reconciliation proceeding conducted concerning Oncor's AMS surcharge.

Beginning in 2008, Oncor's actuary began preparing separate annual FAS 87 and 106 studies for Oncor's meter readers in order to determine any savings as meter reader positions were being eliminated. Studies will be prepared annually by Oncor's actuary.

**Estimate vs. Year-End Actual:**

| \$ Millions              | Year-End<br>2009<br><u>(Orig. Est.)</u> | Year-End<br>2009<br><u>(Actual)</u> | Actual<br>Over (Under)<br><u>vs. Estimate</u> |
|--------------------------|---|-------------------------------------|---|
| Pension and OPEB Savings | 0.00                                    | 0.00                                | 0.00  |

**2009 Variance Explanation:**

Oncor's actuary determined that the 2008 pension expense associated with meter readers was \$136,000. For Year-End 2009, Oncor's actuary determined the pension expense to be \$119,000, a reduction of \$17,000. The amount of OPEB expense for 2008 was \$33,000. For 2009, the OPEB expense was determined to be \$31,000, a reduction of \$2,000. Combined, the savings related to pensions and OPEBs was \$19,000 during 2009. These savings have been reflected within the accounts that Oncor maintains for over/under-recovered pension and OPEB costs pursuant to PURA § 36.065. The pension and OPEB savings related to the meter reader actuarial study and supporting detail for these amounts will be included in the first reconciliation proceeding related to Oncor's AMS Surcharge, which is consistent with Finding of Fact No. 28 in the Commission's Order in Docket No. 35718.

**Meter Depreciation**

**Exhibit 1-K**

**Surcharge Model Reference:**  
 Tab Name: Capital Electric  
 Line Number: 107  
 Name: Total Book Depreciation

**Description of Costs:**

The AMS Surcharge Model assumed that AMS meters and meter related assets have a depreciable life of seven years. A seven-year depreciation period equates to a 14.3% annual depreciation rate. The AMS Surcharge Model also used a half-year convention depreciation method. Actual depreciation, however, is based on the prior month's ending plant in service balance and is depreciated on a monthly basis throughout the year. Finding of Fact No. 24 in the Commission's Order in Docket No. 35718 stated: "The seven-year depreciation period utilized in Oncor's AMS Surcharge Model is reasonable."

**Estimate vs. Year-End Actual:**

| \$ Millions        | Year-End 2009 |          | Actual Over (Under) vs. Estimate |
|--------------------|---------------|----------|----------------------------------|
|                    | (Orig. Est.)  | (Actual) |                                  |
| Meter Depreciation | 8.31          | 6.30     | (2.01)                           |

**2009 Variance Explanation:**

| \$ Millions                                  | Year-End 2009 |        | Actual Over (Under) vs. Estimate | Variance Explanation  |
|--|---------------|--------|----------------------------------|---|
|  | (Orig. Est.)  | Actual |                                  |   |
| Ending Plant in Service                      | 111.28        | 102.44 | (8.84)                           | Average 2009 actual plant in service was \$13.71 million lower than the amount estimated in the AMS Surcharge Model due to lower than actual capital expenditures and actual plant going into service later in the year compared to the estimate in the AMS Surcharge Model. The result is \$2.01 million less in actual depreciation compared to the AMS Surcharge Model estimate. |
| Average Meter Plant is Service over the year | 55.64         | 41.93  | (13.71)                          |   |
| Depreciation Rate                            | 14.3%         | 14.3%  |                                  |   |
| Total Depreciation                           | 7.95          | 6.00   | (1.95)                           |   |
| Meter Removal Cost Amortization              | 0.36          | 0.30   | (0.06)                           |   |
| Total 2009 Depreciation                      | 8.31          | 6.30   | (2.01)                           |   |

**Exhibit 1-L Communication Networks Depreciation**

**Surcharge Model Reference:**

Tab Name: Capital Infrastructure  
Line Number: 81  
Line Item Description: Total Book Depreciation

**Description of Costs:**

The AMS Surcharge Model assumed the Communication Networks to have a depreciable life of seven years. A seven-year depreciation period equates to a 14.3% annual depreciation rate. The AMS Surcharge Model also used a half-year convention depreciation method. Actual depreciation, however, is based on the prior month's ending plant in service balance and is depreciated on a monthly basis throughout the year. Finding of Fact No. 24 in the Commission's Order in Docket No. 35718 stated: "The seven-year depreciation period utilized in Oncor's AMS Surcharge Model is reasonable." In addition, the depreciation amount associated with the Mobile experience Center ("MEC") was included in the Communication Networks Depreciation in AMS Surcharge Model because the applicable depreciation rates are the same for the MEC and the Communication Networks.

**Estimate vs. Year-End Actual:**

| \$ Millions                               | Year-End             |                  | Actual<br>Over (Under)<br>vs. Estimate |
|---|----------------------|------------------|--|
|   | 2009<br>(Orig. Est.) | 2009<br>(Actual) |  |
| Network Communications & MEC Depreciation | 2.19                 | 1.56             | (0.64)                                 |

Variance rounds to (0.64) at two decimal place presentation.

**2009 Variance Explanation:**

| \$ Millions                            | Year-End             |                  | Actual<br>Over (Under)<br>vs. Estimate | Variance Explanation  |
|--|----------------------|------------------|--|---|
|  | 2009<br>(Orig. Est.) | 2009<br>(Actual) |  |   |
| Ending Plant in Service                | 30.71                | 12.80            | (17.91)                                | Average 2009 actual plant in service was \$4.47 million lower than the amount estimated in the AMS Surcharge Model due to lower than estimated actual capital expenditures. The result is \$0.64 million less in actual depreciation compared to the AMS Surcharge Model. |
| Average Plant is Service over the year | 15.36                | 10.89            | (4.47)                                 |   |
| Depreciation Rate                      | 14.3%                | 14.3%            |  |   |
| Total 2009 Depreciation                | 2.19                 | 1.56             | (0.64)                                 | Variance rounds to (0.64) at two decimal place presentation.  |

**Exhibit 1-M IT Systems Depreciation and Amortization**

**Surcharge Model Reference:**

Tab Name: Capital IT and Implementation  
 Line Number: 84  
 Line Item Description: Total Book Depreciation

**Description of Costs:**

The AMS Surcharge Model assumed the IT Systems have a depreciable life of seven years. A seven-year depreciation period equates to a 14.3% annual depreciation rate. The AMS Surcharge Model also used a half-year convention depreciation method. Actual depreciation, however, is based on the prior month's ending plant in service balance and is depreciated on a monthly basis throughout the year. Finding of Fact No. 24 in the Commission's Order in Docket No. 35718 stated: "The seven-year depreciation period utilized in Oncor's AMS Surcharge Model is reasonable."

**Estimate vs. Year-End Actual:**

|                         | Year-End             |                  | Actual<br>Over (Under)<br>vs. Estimate |
|-------------------------|----------------------|------------------|--|
|                         | 2009<br>(Orig. Est.) | 2009<br>(Actual) |  |
| IT Systems Depreciation | 5.17                 | 3.08             | (2.09)                                 |

**2009 Variance Explanation:**

| \$ Millions                            | Year-End             |                | Actual<br>Over (Under)<br>vs. Estimate | Variance Explanation   |
|--|----------------------|----------------|--|--|
|  | 2009<br>(Orig. Est.) | 2009<br>Actual |  |  |
| Ending Plant in Service                | 61.54                | 80.71          | 19.17                                  | (Ending Plant in Service included IT Systems and Web Portal expenditures.)   |
| Average Plant in Service over the year | 36.21                | 21.58          | (14.63)                                | Actual 2009 plant in service was \$19.17 million higher than the amount estimated in the AMS Surcharge Model. Actual average plant in service was lower by \$14.63 million due to actual plant being placed in service later in the year compared to the AMS Surcharge Model estimate, resulting in \$2.09 million lower actual depreciation compared to the AMS Surcharge Model estimate. |
| Depreciation Rate                      | 14.3%                | 14.3%          |  |  |
| Total 2009 Depreciation                | 5.17                 | 3.08           | (2.09)                                 |  |

**EXHIBIT 1-N**

**Interest Expense**

**Surcharge Model Reference:**

Tab Name: Surcharge Model  
Line Number: 10  
Line Item Description: Interest Expense

**Description of Costs:**

Interest expense is the cost of Oncor's debt driven by AMS rate base. In the AMS Surcharge Model, the capital structure for AMS was assumed to be 60% debt and 40% equity. During 2009, Oncor litigated a rate case (Docket No. 35717), and the Commission's Order in that docket was entered on August 31, 2009. That Order changed Oncor's cost of debt from 7.08% to 6.97%. Therefore, for year-end 2009 actual, an interest rate of 7.08% was effective with the Rider AMCRF that became effective on the first day of Oncor's January 2009 revenue month through September 16, 2009, and an interest rate of 6.97% was effective with the Rider AMCRF that became effective on September 17, 2009.

**Estimate vs. Year-End Actual:**

| \$ Millions      | Year-End<br>2009<br>(Orig. Est.) | Year-End<br>2009<br>(Actual) | Actual<br>Over (Under)<br>vs. Estimate |
|------------------|----------------------------------|------------------------------|--|
| Interest Expense | 7.17                             | 1.81                         | (5.36)                                 |

**2009 Variance Explanation:**

Lower actual AMS rate base drove lower interest expense. For 2009, the AMS Surcharge Model assumed \$169.4 million of AMS rate base for year-end. The AMS Surcharge Model assumed an annual interest expense (debt cost) applied to this year-end rate base amount. Oncor actually applies a monthly interest expense to month-end rate base. Actual average monthly AMS rate base was \$42.85 million. Actual year-end 2009 AMS rate base was \$109.81 million. Oncor also established a regulatory liability in which the monthly differences between the AMS surcharges billed and the net revenue requirements, based on actual expenses and net investment in AMS, are recorded. Year-end 2009 AMS regulatory liability net of deferred taxes was \$37.02 million. Lower rate base, the application of a monthly interest expense to month-end AMS rate base, and the impact of the regulatory liability drove lower interest expense.

**Return on Equity**

**EXHIBIT 1-O**

**Surcharge Model Reference:**

Tab Name: Surcharge  
 Line Number: 13  
 Line Item Description: Return on Equity (On Ending Rate Base)

**Description of Costs:**

Return on equity is the cost of Oncor's equity capital applied to AMS rate base. For year-end 2009 actual, an equity return rate of 10.75% was effective with the Rider AMCRF on the first day of Oncor's January 2009 revenue month through September 16, 2009, and an equity return rate of 10.25% was effective with the Rider AMCRF effective beginning September 17, 2009. The change in Oncor's return rate was the result of the Commission's final Order in Docket No. 35717 (Oncor's most recent rate case).

**Estimate vs. Year-End Actual:**

| \$ Millions      | Year-End            | Year-End        | Actual              |
|------------------|---------------------|-----------------|---------------------|
|                  | 2009                | 2009            | Over (Under)        |
|                  | <u>(Orig. Est.)</u> | <u>(Actual)</u> | <u>vs. Estimate</u> |
| Return on Equity | 7.20                | 1.81            | (5.39)              |

**2009 Variance Explanation:**

Lower actual AMS rate base at year-end 2009 drove a lower total return on equity amount. For 2009, the AMS Surcharge Model assumed \$169.41 million of AMS rate base for year-end. The AMS Surcharge Model also assumed an annual return on equity applied to this year-end rate base amount. Oncor actually applies a monthly return on equity to month-end rate base. Actual average monthly AMS rate base for 2009 was \$42.85 million. Actual year-end 2009 AMS rate base was \$109.81 million.

Oncor also established a regulatory liability, in which the monthly differences between the AMS surcharges billed and the net revenue requirements, based on actual expenses and net investment in AMS, are recorded. Year-end 2009 AMS regulatory liability net of deferred taxes was \$37.02 million. Lower AMS rate base, the application of a monthly equity return to month-end AMS rate base, and impact of the AMS regulatory liability drove a lower return on equity.

**Exhibit 1-P Ad Valorem Tax - AMS**

**Surcharge Model Reference:**

Tab Name: Surcharge  
Line Number: 11  
Line Item Description: Property Taxes

**Description of Costs:**

The annual ad valorem tax expense reflected in the AMS Surcharge Model was calculated on the AMS net plant assumed to be in service at December 31 of the prior year, at valuations and rates established by the various taxing jurisdictions during the current year.

**Estimate vs. Year-End Actual:**

| \$ Millions          | Year-End            | Year-End        | Actual              |
|----------------------|---------------------|-----------------|---------------------|
|                      | 2009                | 2009            | Over (Under)        |
|                      | <u>(Orig. Est.)</u> | <u>(Actual)</u> | <u>vs. Estimate</u> |
| Ad Valorem Tax - AMS | 0.53                | 0.21            | (0.32)              |

**2009 Variance Explanation:**

The AMS Surcharge Model assumed net plant in service of \$31.4 million at Year-End 2008, which yielded an estimated ad valorem tax expense of \$0.53 million for 2009. Actual net plant in service at the end of 2008 was \$13.8 million. The actual lower net plant in service balance at Year-End 2008 caused ad valorem taxes in 2009 to be \$0.32 million less than the amount estimated in the AMS Surcharge Model.

**Exhibit 1-Q Ad Valorem Tax Offset - Old Meters**

**Surcharge Model Reference:**

Tab Name: General Assumptions  
 Line Number: 67  
 Line Item Description: Old Meter - Ad Valorem Tax Offset to Base Rates

**Description of Costs:**

Ad valorem tax savings of \$28 million on conventional and automated meters were included in the AMS Surcharge Model. Ad valorem tax savings correspond to ad valorem tax reductions that arise from the retirement of conventional and automated meter investment that results from the deployment of AMS meters. The reductions in conventional and automated meter investment in the year in which they are removed results in reductions in ad valorem taxes in the following year (one year lag for ad valorem tax savings). Annual ad valorem tax expense is calculated on property in service at December 31 in the prior year, at rates established by the various taxing jurisdictions during the current year.

Recovery of ad valorem taxes related to investment in conventional and automated meters is billed and collected through base rate revenues. The reductions in ad valorem taxes for conventional and automated meter investment were reflected as ad valorem tax savings in the AMS Surcharge Model, which reduced the AMS Surcharge Model revenue requirement. The annual ad valorem tax savings will increase over the AMS deployment period as conventional and automated meters are retired and advanced meters are deployed.

**Estimate vs. Year-End Actual:**

| \$ Millions                         | Year-End             |                  | Actual<br>Incr (Decr)<br>vs. Estimate |
|-------------------------------------|----------------------|------------------|---------------------------------------|
|                                     | 2009<br>(Orig. Est.) | 2009<br>(Actual) |                                       |
| Ad Valorem Tax Savings - Old Meters | 0.00                 | (0.03)           | (0.03)                                |

**2009 Variance Explanation:**

Estimated ad valorem tax savings for 2009 included in the AMS Surcharge Model were \$0. The actual ad valorem tax savings for 2009 were approximately \$30,000. The actual 2009 ad valorem tax savings resulted from the deployment of advanced meters during 2008.

**Exhibit 1-R Texas Gross Margin Tax**

**Surcharge Model Reference:**

Tab Name: Surcharge  
Line Number: 14  
Line Item Description: Texas Gross Margin Tax

**Description of Costs:**

The Texas Gross Margin Tax is calculated by applying a 1% state tax rate to the greater of revenues less Cost of Goods Sold or 70% of total revenue. For Oncor, the greater of those two amounts is 70% of total revenue. Therefore, the effective Texas Gross Margin Tax rate for Oncor is 0.7% of 2009 AMS revenues. The AMS Surcharge Model estimated revenue was \$50.1 million, and the Texas Gross Margin Tax of 0.7% of revenue was applied to the estimated revenue for a gross margin tax estimate of \$0.35 million.

**Estimate vs. Year-End Actual:**

| \$ Millions            | Year-End             |                  | Actual<br>Over (Under)<br>vs. Estimate |
|------------------------|----------------------|------------------|--|
|                        | 2009<br>(Orig. Est.) | 2009<br>(Actual) |  |
| Texas Gross Margin Tax | 0.35                 | 0.20             | (0.15)                                 |

**2009 Variance Explanation:**

The actual revenue related to AMS in 2009 was lower than assumed in the AMS Surcharge Model. Actual Year-End AMS revenues were \$28.29 million, which is \$21.77 million lower than estimated in the AMS Surcharge Model. For the actual Texas Gross Margin Tax, the total AMS revenues for 2009 of \$28.29 million were multiplied by the 0.7% gross margin tax rate for a gross margin tax of \$0.2 million.

| \$ Millions                 | Year-End             |                  | Actual<br>Over (Under)<br>vs. Estimate |
|-----------------------------|----------------------|------------------|--|
|                             | 2009<br>(Orig. Est.) | 2009<br>(Actual) |  |
| 2009 Revenue Requirements   | 50.06                | 28.29            | (21.77)                                |
| Texas Gross Margin Tax Rate | 0.7%                 | 0.7%             | 0.7%                                   |
| Texan Gross Margin Tax      | 0.35                 | 0.20             | (0.15)                                 |

**Exhibit 1-S Federal Income Taxes**

**Surcharge Model Reference:**

Tab Name: Surcharge  
Line Number: 12  
Line Item Description: Federal Income Taxes

**Description of Costs:**

In the AMS Surcharge Model, Federal Income Taxes, at a 35% tax rate, were applied to pre-tax income to determine federal income taxes.

**Estimate vs. Year-End Actual:**

|                      | Year-End             |                  | Actual<br>Over (Under)<br>vs. Estimate |
|----------------------|----------------------|------------------|--|
|                      | 2009<br>(Orig. Est.) | 2009<br>(Actual) |  |
| Federal Income Taxes | 3.88                 | 1.04             | (2.84)                                 |

**2009 Variance Explanation:**

Actual 2009 taxable income was \$8.11 million lower than was assumed in the AMS Surcharge Model, resulting in lower federal income taxes for the year.

| \$ Millions    | Year-End             |                  | Actual<br>Over (Under)<br>vs. Estimate |
|----------------|----------------------|------------------|--|
|                | 2009<br>(Orig. Est.) | 2009<br>(Actual) |  |
| Taxable Income | 11.08                | 2.97             | (8.11)                                 |
| Tax Rate       | 35.0%                | 35.0%            | 35.0%                                  |
| Income Taxes   | 3.88                 | 1.04             | (2.84)                                 |

**Exhibit 2-A**

**Total Meters Expenditures**

**Surcharge Model Reference:**

Tab Name: Capital Electric  
Line Number: 69  
Line Item Description: Total Electric Meter Cost

**Description of Costs:**

In the AMS Surcharge Model, Total Meter Expenditures represented the installed costs of AMS meters, including the cost of the meters, sales tax, revenue security, materials, overheads, and installation costs.

**Estimate vs. Year-End Actual:**

| \$ Millions  | Year-End<br>2009<br>(Orig. Est.) | Year-End<br>2009<br>(Actual) | Actual<br>Over (Under)<br>vs. Estimate |
|--|----------------------------------|------------------------------|--|
| Meters (Including Stock Shop Meters, Revenue Security Material, Failure Reserve) | 82.68                            | 82.86                        | 0.18                                   |
| Meter Installation and Meter Handling  | 28.60                            | 19.18                        | (9.42)                                 |
| Project Management *   | 0.00                             | 0.40                         | 0.40                                   |
| <b>Total Meters Expenditures</b>   | <b>111.28</b>                    | <b>102.44</b>                | <b>(8.84)</b>                          |

**2009 Variance Explanation:**

The primary factors that contributed to the variance in meter costs are that the per meter costs were lower than originally estimated, Oncor purchased more meters in 2009 than originally estimated, and Oncor purchased more locking devices than anticipated. More specifically, Oncor incurred \$3.89 million less in actual costs than estimated in the AMS Surcharge Model for the 691,544 AMS meters estimated to be purchased. The lower actual meter cost was due to Oncor's purchasing more of the lower priced RF meters and fewer of the higher priced PLC meters than estimated in the AMS Surcharge Model. Also, Oncor purchased 28,597 more AMS meters that estimated in the AMS Surcharge Model at an additional cost of \$2.96 million. In addition, Oncor's actual experience with theft and tampering of AMS meters caused it to install more locking devices and physical security equipment at a total increased cost of \$730,000 above what was estimated in the AMS Surcharge Model.

Actual Purchasing and Stores loadings were approximately \$8 million lower than the estimated Purchasing and Stores loadings contained in the AMS Surcharge Model. This difference is due to the fact that the AMS Surcharge Model applied the Purchasing and Stores loadings to all meters to be purchased, and in actual practice, Oncor does not apply those loadings to amounts in excess of \$100,000 per invoice line item.

Actual Sales taxes of \$984,000 on \$11 million of accrued meter costs in December 2009 is not recorded until January 2010. This results in \$984,000 of lower actual sales tax in 2009 compared to the AMS Surcharge Model amount.

\* Amount included in the AMS Surcharge Model for project management is shown in Exhibit 2-B.

**Exhibit 2-B Total Communication Networks Expenditures**

**Surcharge Model Reference:**

Tab Name: Capital Infrastructure  
Line Number: 48-52  
Line Item Description: Total Infrastructure Equipment

**Description of Costs:**

Communication Networks expenditures represent the capital costs associated with the RF and PLC communication networks that are necessary to support AMS.

**Estimate vs. Year-End Actual:**

| \$ Millions            | Year-End 2009 (Orig. Est.) | Year-End 2009 (Actual) | Actual Over (Under) vs. Estimate |
|------------------------|----------------------------|------------------------|----------------------------------|
| Communication Networks | 29.66                      | 11.56                  | (18.10)                          |

**2009 Variance Explanation:**

| \$ Millions                     | Year-End 2009 (Orig. Est.) | Year-End 2009 (Actual) | Actual Over (Under) vs. Estimate | Variance Explanation   |
|---------------------------------|----------------------------|------------------------|----------------------------------|--|
| PLC Network                     | 8.50                       | 3.60                   | (4.90)                           | AMS Meter devices were not available for PLC, so work was suspended on the PLC communication network pending availability of PLC meter devices.  |
| RF Network                      | 7.93                       | 7.96                   | 0.03                             | The actual number of collectors installed (96) is greater than the number included in the AMS Surcharge Model (83) due to installation of more RF meters than forecasted. Fewer routers per collector were needed. Therefore, the number of routers installed (2,093) was less than the 2,947 estimated in the AMS Surcharge Model. Also, network infrastructure capital costs were incurred for assets used in substations (such as concrete poles) but were not included in the AMS Surcharge Model. |
| RF Backhaul Technology          | 10.69                      | 0.00                   | (10.69)                          | Backhaul technology was not deployed. A long term communication networks solution is currently being evaluated. Wireless technology has been deployed as an interim solution, and the costs have been included in Field Operations cost in Exhibit 1-C.  |
| <b>Total RF Network</b>         | <b>18.62</b>               | <b>7.96</b>            | <b>(10.66)</b>                   |  |
| <b>Total Network (RF + PLC)</b> | <b>27.12</b>               | <b>11.56</b>           | <b>(15.56)</b>                   |  |
| Capital Maintenance             | 1.69                       | 0.00                   | (1.69)                           | No maintenance of the Communication Networks was required during 2009.   |
| Project Management              | 0.85                       | 0.00                   | (0.85)                           | Recorded as part of meter expenditures shown on Exhibit 2-A.   |
| <b>Total</b>                    | <b>29.66</b>               | <b>11.56</b>           | <b>(18.10)</b>                   |  |

**Exhibit 2-C Total IT Systems Expenditures**

**Surcharge Model Reference:**

Tab Name: Capital IT Implementation  
Line Number: 45-52  
Line Item Description: Total Implementation Costs

**Description of Costs:**

**Hardware**

This classification in the AMS Surcharge Model covered the anticipated changes and modifications to the IT server and network environments. Components included physical servers and network equipment, along with specialized devices such as security appliances, and all associated cabling and hardware. This category also included anticipated changes to IT applications and additions to existing hardware due to increased volume of transactions. It was also anticipated that the large data storage requirements due to AMS would require changes to the existing Oncor data storage solution.

**Software, Services, and Integration**

The AMS Surcharge Model had multiple categories for software and services, which included Application Programming Interfaces ("APIs") that connect applications to each other ensuring data exchanges between these applications are connected properly. An analytical support tool, which is the Oncor internal portal, is required for use where data lookup and queries are necessary for Oncor personnel and are not available on the SMTxP or on individual system applications. External system modifications anticipated in the AMS Surcharge Model included changes to existing environments to interface with the market, including REPs, customers, and ERCOT. Network and security estimates were included due to the large bandwidth needs of AMS and the need for data security. The AMS Surcharge Model also included architecture design and program management to ensure the overall program will operate to meet system design and business requirements.

**Licenses**

The AMS Surcharge Model included the cost of the software license for Landis + Gyr Command Center software. This is the software that is used for interaction from the IT systems to the meters, including the RF mesh components.

**Estimate vs. Year-End Actual:**

| \$ Millions                          | Year-End 2009 |              | Year-End Actuals |              |
|--------------------------------------|---------------|--------------|------------------|--------------|
|                                      | (Orig. Est.)  | (Actual)     | Over(Under)      | Surcharge    |
| Hardware                             | 10.83         | 2.00         |                  | (8.82)       |
| Software and System Integration      | 42.06         | 62.94        |                  | 20.88        |
| Licenses                             | 3.25          | 7.78         |                  | 4.53         |
| <b>Total IT Systems Expenditures</b> | <b>56.13</b>  | <b>72.72</b> |                  | <b>16.59</b> |

**2009 Variance Explanation:**

**Hardware**

Instead of purchasing the servers and network equipment as reflected in the AMS Surcharge Model, Oncor made the decision to lease IT equipment, which resulted in reduced total IT hardware capital expenditures. The lease costs are included in IT costs in Exhibit 1-E. Capital purchases made were for security hardware. The amount of server, network, and security hardware included in the AMS Surcharge Model was underestimated due to: (1) more complex security requirements, (2) environment complexity, and (3) the very large data storage requirements of AMS.

**Software, Services, and Integration**

The overall level of effort required to develop, integrate, and implement the AMS IT system was greater than anticipated, particularly for system integration, security components, and vendor software. Integration costs were higher than anticipated due to changing market requirements adopted in the Advanced Metering Implementation Team workshops in Project No. 34610. Security requirements continued to become more complex and expensive as clarity was developed around the AMS environment to incorporate additional industry best practices and standards. Vendor software costs were higher than originally estimated because a new Meter Data Management System for billing and VEE processes became necessary as did a MAXIMO application to manage certain AMS plant assets.

**Licenses**

The AMS Surcharge Model did not include the cost of software licenses for the Ecologic Analytics Meter Data Management System, IBM MAXIMO assets management application, additional security software, and other minor software. In addition, the cost of the Landis + Gyr Command Center software was slightly more than originally estimated.

**Exhibit 2-D**

**Web Portal Expenditures**

**Surcharge Model Reference:**

Tab Name: Capital IT and Implementation  
 Line Number: 44  
 Line Item Description: Web Portal Application

**Description of Costs:**

The initial estimate for the web portal included in the AMS Surcharge Model was based on the original Oncor Meter Data Portal, the functional requirements for the web portal contemplated at the time of the AMS Surcharge filing, and estimates received from multiple vendors. At that time, neither the required web portal capabilities nor the Home Area Network requirements were completely defined.

**Estimate vs. Year-End Actual:**

| \$ Millions             | Year-End             | Year-End         | Actual                       |
|-------------------------|----------------------|------------------|------------------------------|
|                         | 2009<br>(Orig. Est.) | 2009<br>(Actual) | Over (Under)<br>vs. Estimate |
| Web Portal Expenditures | 5.41                 | 7.99             | 2.58                         |

**2009 Variance Explanation:**

Subsequent to Oncor's filing of Docket No. 35718, the web portal functionalities developed in Project No. 34610 were greatly expanded. They now include increased web portal, ERCOT settlement, and Home Area Network functionality that is greater than was anticipated in the AMS Surcharge Model. The technical requirements to deliver this expanded functionality have also increased above the level Oncor had initially envisioned. This expanded functionality and the increased technical requirements increased the cost of the web portal. Oncor's actual cost incurred in 2009 to deliver a web portal that fully meets the requirements derived in Project No. 34610 was \$7.99 million.

**Exhibit 2-E Mobile Experience Center Expenditures**

**Surcharge Model Reference:**

Tab Name: Capital Infrastructure  
 Line Number: 53  
 Line Item Description: Other - Mobile Education Center

**Description of Costs:**

The AMS Surcharge Model recognized that Oncor's customer education program includes a 1,000 square-foot Mobile Experience Center ("MEC") that allows retail customers to see first hand the benefits that can be achieved through the use of advanced meters.

**Estimate vs. Year-End Actual:**

| <b>\$ Millions</b>                    | <b>Year-End</b>     | <b>Year-End</b> | <b>Actual</b>       |
|---------------------------------------|---------------------|-----------------|---------------------|
|                                       | <b>2009</b>         | <b>2009</b>     | <b>Over (Under)</b> |
|                                       | <b>(Orig. Est.)</b> | <b>(Actual)</b> | <b>vs. Estimate</b> |
| Mobile Experience Center Expenditures | 1.05                | 1.24            | 0.19                |

**2009 Variance Explanation:**

The AMS Surcharge Model estimated the cost of the MEC at \$1.05 million. The MEC, a 53 foot long double expansion mobile facility with 1,000 interior square feet, was purchased at a cost of \$1.00 million. The MEC includes interactive kiosks and an outdoor screen, which were purchased at an actual cost of \$226,000.

**Exhibit 2-F Construction Work in Progress**

**Surcharge Model Reference:** Not in AMS Surcharge Model

**Description of Costs:**

Construction Work in Progress ("CWIP") represents the costs of capital projects that are "in progress" and not yet "used and useful" in the provision of advanced metering services to the retail customer. The AMS Surcharge Model appropriately excluded all balances in CWIP projects from rate base. As such, the amount of "\$0" is reflected for CWIP in the year-end 2009 in the AMS Surcharge Model. The actual amount of CWIP expenditures at year-end 2009 (in the amount of \$34.06 million) is included in the Company's total reported costs of utility plant and has been correspondingly eliminated from rate base on Page 2, Line No. 21, of the Annual Report.

**Estimate vs. Year-End Actual:**

| \$ Millions                   | Year-End                    | Year-End                | Actual                              |
|-------------------------------|-----------------------------|-------------------------|-------------------------------------|
|                               | 2009<br><u>(Orig. Est.)</u> | 2009<br><u>(Actual)</u> | Over (Under)<br><u>vs. Estimate</u> |
| Construction Work in Progress | 0.00                        | 34.06                   | 34.06                               |

**2009 Variance Explanation:**

The total amount of \$34.06 million has been eliminated from rate base for the determination of Oncor's 2009 revenue requirement. The difference between the "\$0" amount of CWIP included in the AMS Surcharge Model and the actual balance of \$34.06 million represents a timing difference corresponding to the final completion of the following 2009 capital projects:

|  |                        |
|--|------------------------|
| Common Web Portal                          | \$ 7.99 million        |
| IT Systems-Software and System Integration | \$ 25.96 million       |
| Communications Network - RF Network        | \$ 0.11 million        |
| Total Construction Work in Progress        | <u>\$34.06 million</u> |



**Exhibit 2-H Inventory**

**Surcharge Model Reference:** Not in AMS Surcharge Model

**Description of Costs:**

The AMS Surcharge Model did not include an estimate for inventory. AMS inventory at December 2009 reflects the direct costs of materials and supplies purchased for use in the construction of the AMS communication networks, including RF routers, RF router cable, and RF collectors.

**Estimate vs. Year-End Actual:**

| \$ Millions | Year-End<br>2009<br>(Orig. Est.) | Year-End<br>2009<br>(Actual) | Actual<br>Over (Under)<br>vs. Estimate |
|-------------|----------------------------------|------------------------------|--|
| Inventory   | 0.00                             | 1.68                         | 1.68                                   |

**2009 Variance Explanation:**

No costs for inventory were included in the AMS Surcharge Model for 2009. Oncor's actual inventory at year-end 2009 included 1,260 RF routers and four RF collectors.

| \$ Millions                 | Year-End<br>2009<br>(Orig. Est.) | Year-End<br>2009<br>(Actual) | Actual<br>Over (Under)<br>vs. Estimate | Variance Explanation                         |
|-----------------------------|----------------------------------|------------------------------|--|--|
| RF routers and router cable | 0.00                             | 1.64                         | 1.64                                   | 1,260 RF routers at a unit price of \$1,300. |
| RF collectors               | 0.00                             | 0.04                         | 0.04                                   | 4 RF collectors at a unit price of \$10,000. |
|                             | <u>0.00</u>                      | <u>1.68</u>                  | <u>1.68</u>                            |  |

**Exhibit 2-I Prepayments**

**Surcharge Model Reference:** Not in AMS Surcharge Model

**Description of Costs:**

The AMS Surcharge Model did not include an estimate for prepayments. AMS prepayments are "upfront" payments for costs recognized over future periods. AMS prepayments are amortized to AMS O&M on a systematic basis over the periods to which the cost applies. For year-end 2009, Oncor had a balance of \$.62 million for AMS prepayments. This \$.62 million balance will be amortized to AMS O&M expense in 2010.

**Estimate vs. Year-End Actual:**

| \$ Millions | Year-End 2009 | Year-End 2009 | Actual                    |
|-------------|---------------|---------------|---------------------------|
|             | (Orig. Est.)  | (Actual)      | Over (Under) vs. Estimate |
| Prepayments | 0.00          | 0.62          | 0.62                      |

**2009 Variance Explanation:**

| \$ Millions   | Year-End 2009 | Year-End 2009 | Actual                    | Variance Explanation   |
|---|---------------|---------------|---------------------------|--|
|   | (Orig. Est.)  | (Actual)      | Over (Under) vs. Estimate |  |
| Prepayment to IBM for 2010 distributed software support                 | 0.00          | 0.02          | 0.02                      | Distributed software support for Meter Data Management System for 01-01-2010 through 03-31-2010. |
| Prepayment to Archer Technologies for 2010 management solution software | 0.00          | 0.03          | 0.03                      | Management solution software usage period 01-01-2010 through 08-26-2010.                         |
| Prepayment to IBM for 2010 Web Portal hosting services                  | 0.00          | 0.25          | 0.25                      | 2010 Web Portal hosting services.  |
| Prepayment to IBM for 2010 equipment leases                             | 0.00          | 0.32          | 0.32                      | AMS server leases for January 2010.  |
| <b>Total Prepayments</b>  | <b>0.00</b>   | <b>0.62</b>   | <b>0.62</b>               |  |

**Exhibit 2-J Regulatory Assets - Severance - Meter Readers/Installers**

**Surcharge Model Reference:**

Tab Name: Reg Assets  
 Line Number: 11  
 Line Item Description: Severance - Meter Readers/Installers

**Description of Costs:**

The AMS Surcharge Model included severance costs associated with meter readers and installers. Finding of Fact No. 50 in the Commission's Order in Docket No. 35718 stated that Oncor shall recover in the AMS surcharge its costs of employee severances subject to reconciliation pursuant to PUC Subst. R. 25.130(k)(6). Finding of Fact No. 27 in the Commission's Order in Docket No. 35718 further directed Oncor to attempt to lower actual severance costs for meter readers and installers by allowing those employees to seek other positions within Oncor.

**Estimate vs. Year-End Actual:**

| \$ Millions                           | Year-End             | Year-End         | Actual                       |
|---------------------------------------|----------------------|------------------|------------------------------|
|                                       | 2009<br>(Orig. Est.) | 2009<br>(Actual) | Over (Under)<br>vs. Estimate |
| Severance - Meter Reader / Installers | 0.18                 | 0.00             | (0.18)                       |

**2009 Variance Explanation:**

No voluntary or involuntary severance costs were incurred by Oncor during 2008 or 2009 related to meter readers and installers.

**Exhibit 2-K Regulatory Assets - Customer Education**

**Surcharge Model Reference:**

Tab Name: Reg Assets  
Line Number: 12  
Line Item Description: Customer Education

**Description of Costs:**

As required by Finding of Fact No. 53 in the Commission's Order in Docket No. 35718, Oncor included \$15.1 million in the AMS Surcharge to pay for the costs associated with the customer education program. As noted on Exhibit 2-E, the AMS Surcharge Model included \$1.050 million as capital infrastructure for the Mobile Experience Center and \$14.050 million as a regulatory asset for the other customer education costs. The AMS Surcharge Model assumed costs would be incurred in equal amounts over a four-year period.

**Estimate vs. Year-End Actual:**

| \$ Millions              | Year-End             | Year-End         | Actual                       |
|--------------------------|----------------------|------------------|------------------------------|
|                          | 2009<br>(Orig. Est.) | 2009<br>(Actual) | Over (Under)<br>vs. Estimate |
| Customer Education Costs | 3.53                 | 4.73             | 1.21                         |

Amount rounds to 1.21 at two decimal place presentation

**2009 Variance Explanation:**

Oncor's actual customer education expenditures were in the amount of \$4.73 million, which was \$1.21 million higher than the annual average amount reflected in the AMS Surcharge. The \$1.21 million of increased costs were primarily the result of "upfront" activities, including advertising design and placement costs, development and design of the MEC, website design, and signage.

**Exhibit 2-L Regulatory Assets - Docket No. 35718 Costs, Solutions Cube Group LLC, Project 34610 Travel Related Expenses**

**Surcharge Model Reference:**

Tab Name: Reg Assets  
 Line Number: 13, 14, 15  
 Line Item Description Solutions Cube LLC, Rate Case Costs - Deferred Assets, Project 34610 - travel related expenses

**Description of Costs:**

Finding of Fact No. 50 in the Commission's Order in Docket No. 35718 authorized Oncor to recover in the AMS surcharge its costs associated with Docket No. 35718, costs of the customer education program, employee severance costs, and costs of participation in the Commission's Project No. 34610. In the AMS Surcharge Model, regulatory assets for these estimated costs were established with amortization recorded over the remaining life of the AMS surcharge. The actual unamortized balances in the regulatory assets are amortized monthly over the remaining life of the AMS surcharge.

**Estimate vs. Year-End Actual:**

| \$ Millions   | Year-End            | Year-End        | Actual              |
|---|---------------------|-----------------|---------------------|
|   | 2009                | 2009            | Over (Under)        |
|   | <u>(Orig. Est.)</u> | <u>(Actual)</u> | <u>vs. Estimate</u> |
| Docket No. 35718,<br>Solutions Cube, Project<br>No. 34610 | 1.95                | 0.88            | (1.07)              |

**2009 Variance Explanation:**

The costs of Docket No. 35718 were estimated at \$1.80 million in the AMS Surcharge Model. Actual costs incurred were \$722,000. The \$1.08 million variance was due to a settlement being reached among the parties. The AMS Surcharge Model assumed \$75,000 for Oncor's share of the costs of Solutions Cube Group, and Oncor's actual share of those costs was \$111,000.

Oncor's actual costs incurred for participation in Project No. 34610 through the end of 2009 was \$44,000 compared to the estimated cost of \$70,000 in the AMS Surcharge Model.

**EXHIBIT 2-M**

**Regulatory Asset Amortization**

**Surcharge Model Reference:**  
 Tab Name: Reg Assets  
 Line Number: 34  
 Line Item Description: Total Book Amortization

**Description of Costs:**

Finding of Fact No. 50 in the Commission's Order in Docket No. 35718 authorized Oncor to recover in the AMS surcharge its costs associated with the AMS proceeding, costs of the customer education program, employee severance costs, and costs of participation in the Commission's Project No. 34610. In the AMS Surcharge Model, regulatory assets for these estimated costs were established with amortization recorded over the remaining life of the AMS surcharge. The actual unamortized balances in the regulatory assets are amortized monthly over the remaining life of the AMS surcharge.

**Estimate vs. Year-End Actual:**

| \$ Millions                   | Year-End             | Year-End         | Actual                       |
|-------------------------------|----------------------|------------------|------------------------------|
|                               | 2009<br>(Orig. Est.) | 2009<br>(Actual) | Over (Under)<br>vs. Estimate |
| Regulatory Asset Amortization | (0.51)               | (0.34)           | 0.18                         |

Amount rounds to 0.18 at two decimal place presentation

**2009 Variance Explanation:**

| \$ Millions   | Year-End             | Year-End         | Actual                      | Variance Explanation  |
|---|----------------------|------------------|-----------------------------|---|
|   | 2009<br>(Orig. Est.) | 2009<br>(Actual) | Incr (Decr)<br>vs. Estimate |   |
| Amortization of costs associated with Docket No. 35718 and cost of participation in Project No. 34610 | (0.18)               | (0.08)           | 0.10                        | The AMS Surcharge Model included an estimate of \$1.95 million for the cost of Docket No. 35718 and the cost of participating in Project No. 34610. With an assumed 11-year amortization, the 2009 regulatory asset amortization in the AMS Surcharge Model was estimated to be \$0.18 million. A lower actual balance drove a lower actual amortization of \$0.08 million, which is \$.10 million below the amount assumed in the AMS Surcharge Model. See Exhibit 2-L for the actual level of costs incurred.   |
| Amortization of costs of customer education program   | (0.32)               | (0.26)           | 0.06                        | The AMS Surcharge Model included an estimate for the customer education program for 2009 of \$3.525 million. With an assumed 11-year amortization, the 2009 regulatory asset amortization in the AMS Surcharge Model was \$0.32 million. The actual regulatory asset balance through 2009 was approximately \$4.9 million. Actual amortization for 2009 was \$0.256 million due to the actual costs being incurred later in the year than anticipated in the AMS Surcharge Model. See Exhibit 2-K for additional detail regarding the actual costs incurred for the customer education program during 2009. |
| Amortization of employee severance costs  | (0.02)               | 0.00             | 0.02                        | No regulatory asset amortization for employee severance costs were recorded since no severance costs were incurred by Oncor during 2009.  |
| <b>Total Regulatory Asset Amortization</b>  | <b>(0.51)</b>        | <b>(0.34)</b>    | <b>0.18</b>                 |   |

**Exhibit 2-N Net Removal Cost Amortization**

**Surcharge Model Reference:**

Tab Name: Removal Costs & Neg Salvage  
 Line Number: 38  
 Line Item Description: Total Book Depreciation

**Description of Costs:**

Net removal cost represents the removal cost that the utility expects to incur at the end of an asset's useful life, net of the salvage amount that the utility expects to receive for the asset. Net removal cost is included in Oncor's book depreciation rates. This results in providing the credit for salvage and the recovery of removal cost ratably over the life of the asset on a straight-line basis. The actual balance reflected below represents the net cumulative amounts collected in the surcharge for the future removal of AMS facilities.

| \$ Millions                   | Year-End             |                  | Actual<br>Over (Under)<br>vs. Estimate |
|-------------------------------|----------------------|------------------|--|
|                               | 2009<br>(Orig. Est.) | 2009<br>(Actual) |  |
| Net Removal Cost Amortization | (0.36)               | (0.30)           | 0.06                                   |

**2009 Variance Explanation**

As reflected in Exhibit 1-K, the AMS Surcharge Model assumed a higher investment in AMS-related plant in service than actually was incurred. As a result of lower plant investment and the timing of the AMS-related installations, the amortization of net removal costs embedded in AMS depreciation was less than estimated by approximately \$60,000 for year 2009.

**EXHIBIT 2-O Accumulated Deferred Taxes**

**Surcharge Model Reference:**

Tab Name: Surcharge  
Line Number: 52  
Line Item Description: Total Accumulated Deferred Taxes

**Cost Item Description:**

Accumulated deferred taxes reflect temporary differences between book income and tax income. Tax assets and liabilities may be deferred due to differences in computing revenue and expenses for AMS surcharge purposes and for income tax purposes. These temporary differences result in tax assets or tax liabilities for federal income taxes and for Texas Gross Margin Tax and are added to (deferred tax assets) or subtracted from (deferred tax liabilities) the Company's AMS-related rate base for purposes of determining the allowed return on AMS capital investment.

**Estimate vs. Year-End Actual:**

| \$ Millions                | Year-End             | Year-End         | Actual   |
|----------------------------|----------------------|------------------|--|
|                            | 2009<br>(Orig. Est.) | 2009<br>(Actual) | Incr (Decr)<br>vs. Estimate                                |
| Accumulated Deferred Taxes | (23.58)              | (48.84)          | (25.25)  |
|                            |                      |                  | Amount rounds to (25.25) at two decimal place presentation |

**2009 Variance Explanation:**

Accumulated deferred taxes (liability balance in rate base) were \$25.25 million greater than the amount that was included in the AMS Surcharge Model. For tax purposes, certain non-AMS investments in metering equipment were incorrectly classified as AMS investment in December 2009. Due to this misclassification, accumulated deferred taxes were overstated by \$20.60 million in December 2009.\*

Higher bonus tax depreciation drove higher accumulated deferred taxes, with a resulting impact of \$12.26 million. The 2009 tax deduction for AMS software was understated, and the impact resulted in an increase to accumulated deferred taxes of \$5.95 million. The remaining increase of \$1.65 million is driven primarily by changes in capital expenditures including the timing of when the AMS investment was placed in service.

Bonus tax depreciation was made available in the 2008 Emergency Economic Stabilization act, enacted October 3, 2008 and was extended in the American Recovery and Reinvestment Act of 2009, which was signed into law on February 17, 2009. The 2008 Emergency Economic Stabilization Act provided for accelerated depreciation for smart meters and smart grid systems by assigning these assets to a 10-year property class for tax recovery, rather than the 20-year class previously used. In addition, accelerated depreciation for qualified smart electric meter and qualified smart electric grid assets is available on property placed in service in 2008 and 2009.

\* Impact of December 2009 misclassification on AMS revenue requirement was approximately \$0.18 million, with a correction to be recorded in 2010.

**EXHIBIT 2-P** **Regulatory Asset/(Liability)**

**Surcharge Model Reference:** Not in AMS Surcharge Model

**Description of Costs:**

The Commissioner's Order in Docket No. 35718 Order (Finding of Fact No. 49) required Oncor to establish a reasonable regulatory asset or liability account in which the difference between the AMS surcharges billed and the net revenue requirements, based on actual expenses (net of the reductions for meter reader savings and runoff of the reduction in old meter ad valorem taxes) and net investment in AMS, are recorded.

Oncor defers the monthly differences between AMS surcharges billed (levelized revenues) and actual AMS incurred costs, net of cost savings, plus allowed return on AMS net investment as a regulatory asset or regulatory liability. This deferral -- a regulatory asset or regulatory liability -- is a timing difference between costs incurred to deploy AMS and the AMS levelized revenues collected and is expected to be zero at the end of the AMS surcharge period. This regulatory asset or regulatory liability, therefore, represents earned revenues (regulatory asset) or deferred revenues (regulatory liability) and includes the deferral impact of federal income taxes and Texas State Gross Margin Taxes ("TGMT").

**Estimate vs. Year-End Actual:**

| \$ Millions   | Year-End<br>2009<br>(Orig. Est.) | Year-End<br>2009<br>(Actual) | Actual<br>Over (Under)<br>vs. Estimate |
|---|----------------------------------|------------------------------|--|
| Regulatory Asset/(Liability) including deferred taxes | N/A                              | (37.02)                      | N/A                                    |

**2009 Variance Explanation:**

The regulatory asset or regulatory liability is calculated as follows:

|   |              |
|---|--------------|
| 2009 revenue requirement                              | 28.24        |
| Less: AMS surcharges billed                           | <u>85.30</u> |
| Regulatory asset/(liability) at year-end 2009         | (57.06)      |
| Add deferred federal income taxes & TGMT              | <u>20.04</u> |
| Regulatory Asset/(Liability) including deferred taxes | (37.02)      |