



2016 Rate Case Summary & Frequently Asked Questions

Regarding Sharyland Utilities' Regulated Delivery Rates

The purpose of this document is to provide a summary of our 2016 rate case currently before the Public Utility Commission of Texas (PUCT) under PUCT Docket No. 45414, as well as answers to Frequently Asked Questions about the 2016 rate case and the regulated delivery rates charged by Sharyland Utilities, L.P. (Sharyland). This document will be updated as new information becomes available. For more information, please visit www.sharyland.com/rates or call our Customer Service Department at 1-800-442-8688.

SUMMARY OF 2016 RATE CASE

- On April 29, 2016, Sharyland filed a rate case with the Public Utility Commission of Texas to review and set system-wide regulated delivery rates for all of its service territories. This filing is in compliance with conditions that were set by the PUCT's previous order in Sharyland's 2013 rate case.
- On December 30, 2016, Sharyland filed an amended rate filing package that was required by the PUCT under a preliminary order that required Sharyland's leases with SDTS to be regulated as tariffs going forward and established the issues that will be addressed as the rate case proceeds through the administrative hearing process.
- This rate case affects those service territories that were formerly served by Cap Rock Energy before Sharyland acquired it in 2010. These territories are collectively known as the Stanton, Brady, and Celeste divisions, or "**SBC**" divisions, and Sharyland's most recent rate case involving these territories took place in 2013.
- This rate case also affects Sharyland's original service territory in South Texas located in Mission and McAllen. This territory is known as the "**McAllen**" division, and this 2016 rate case will be the first full rate review of this territory since 2001.
- This rate case will consolidate Sharyland's two existing tariffs (one for SBC and one for McAllen) into a single unified tariff that will set uniform system-wide rates and policies for all territories. This is required by the PUCT's previous order in Sharyland's 2013 rate case.
- Under the proposed rates, an average Sharyland residential customer using approximately 1,333 kilowatt hours a month will be affected as follows:
 - SBC territories – Monthly delivery rates will *decrease* by approximately \$3, not including riders.
 - McAllen territory – Monthly delivery rates will *increase* by approximately \$36, not including riders.
- With riders included, the monthly bill for an average SBC residential customer will remain essentially the same, and the monthly bill for an average McAllen residential customer would increase \$55 overall, similar to what was proposed in the original filing back in April 2016. See question #18 for further information about riders.
- As part of this filing, Sharyland is making the following commitments to its customers:
 - A stronger, more reliable transmission and distribution system.
 - A detailed explanation of the significant capital investment in transmission and distribution infrastructure over the past three years to support approximately 15 percent annual load growth in the region and to modernize and renovate the outdated Cap Rock Energy system it acquired in 2010.

QUESTIONS ABOUT 2016 RATE CASE

1) Did Sharyland file a rate case in 2016?

Yes. On April 29, 2016, Sharyland filed a rate case with the Public Utility Commission of Texas (PUCT) under Docket No. 45414 to review and set system-wide regulated delivery rates for all of its service territories. This filing is in compliance with conditions that were set by the PUCT's previous order in Sharyland's 2013 rate case.

2) Did Sharyland recently submit an amended rate filing package? Why?

Yes. On December 30, 2016, Sharyland submitted an amended rate filing package as directed by the PUCT.

In reviewing our initial application, the PUCT determined that it would amend its previous method of regulating Sharyland and its leases. Sharyland leases utility assets that are owned by Sharyland Distribution & Transmission Services, L.L.C. (SDTS), and Sharyland operates and maintains these assets on behalf of SDTS.

On October 7, 2016, the PUCT approved a preliminary order directing Sharyland and SDTS to jointly file an amended rate filing package no later than January 1, 2017.

On December 30, 2016, Sharyland and SDTS jointly filed the amended rate case application and rate filing packages that seek to: 1) set new wholesale and retail rates that Sharyland will charge its customers; 2) establish the rates that SDTS will charge to its only customer, Sharyland; and 3) grant a certificate of convenience and necessity (CCN) and transfer CCN rights to SDTS.

3) Did Sharyland notify customers about the rate case and the amended rate filing package?

Yes. By rule, we are required to publish notices in local newspapers in each of our service territories. We also provide notice to all Retail Electric Providers (REPs) that have customers in our service territories.

4) How can someone participate in this rate case?

All interested parties that are affected by our regulated delivery rates have an opportunity to directly participate in the proceeding as an intervenor, or they can just send comments if they wish. Parties wishing to intervene or to provide comments can contact the PUCT in writing as follows:

Public Utility Commission of Texas
P.O. Box 13326
Austin, Texas 78711-3326

5) What is a tariff?

A tariff is the final document that is approved by the PUCT as part of a rate case that lays out the specific rates that Sharyland can charge all customer classes, as well as the specific policies and procedures that we must follow as a fully regulated electric utility to ensure that every customer class receives fair and equitable service.

6) How many tariffs does Sharyland currently have?

Sharyland currently has two distinct tariffs.

The first tariff sets the rates and policies for serving Sharyland customers in territories formerly served by Cap Rock Energy, which Sharyland acquired back in 2010. These territories are collectively known as the Stanton,

Brady, and Celeste divisions, or "**SBC**" divisions, and are located in: West Texas, including the communities in and around Midland, Stanton, and Colorado City; Central Texas, including the communities in and around Brady; and North Texas, including communities in and around Greenville and Celeste. This first tariff was last reviewed in our 2013 rate case before Sharyland transitioned these territories to retail electric competition.

The second tariff sets the rates and policies for Sharyland's original "greenfield" service territory in South Texas located in Mission and McAllen. This territory is known as the "**McAllen**" division, and this tariff has not been under a full rate case review since 2001.

7) Will this rate case affect both tariffs?

Yes. In fact, this rate case will consolidate both tariffs into a single unified tariff that will set uniform system-wide rates and policies for all of Sharyland's territories. This was a condition that was required as part of the PUCT's previous order in Sharyland's 2013 rate case.

8) Why are regulated delivery rates increasing for some customers classes in McAllen?

Sharyland created the McAllen service territory from scratch in 2000 to serve a master planned community within the Sharyland Plantation located in Mission and McAllen. Due to the small size of the customer base during the development phase of this territory, Sharyland could not recover the full cost of serving our initial customers without charging rates that would have effectively prevented growth in the community. So at that time, it was decided that Sharyland would cap its rates for McAllen customers to the rates charged by a neighboring utility. That practice has not changed for the past 16 years, during which Sharyland has continued to subsidize the rates in McAllen.

For this filing, the regulated delivery rates in McAllen were calculated using system-wide, cost-based rates, as required by the PUCT final order in the 2013 rate case.

9) How much has Sharyland invested in transmission since 2012?

Since December 31, 2012, Sharyland has invested more than \$800 million in transmission facilities to help accommodate load growth, increase reliability, interconnect new generation, reduce congestion, and replace older equipment. These include:

- Over \$600 million for Sharyland's original portion of the Competitive Renewable Energy Zone (CREZ) project, which includes five 345 kilovolt (kV) transmission line segments and four collection stations throughout the Texas Panhandle and South Plains, as well as additional substations and interconnections
- Approximately \$15 million for Transmission Operations Center to control Sharyland's entire transmission system throughout ERCOT
- Approximately \$50 million for expansion of Sharyland's High Voltage Direct Current Interconnection, also known as a DC Tie, located in Mission, as well as other transmission investments
- Approximately \$160 million for transmission improvements within Sharyland's SBC service territories

10) How much has Sharyland invested in distribution since 2012?

Over the past three years, Sharyland has invested approximately \$170 million in distribution capital expenditures throughout its retail service territories.

11) Why did Sharyland invest so much in transmission and distribution in its SBC service territories?

When Sharyland acquired Cap Rock Energy in 2010, we acquired a transmission and distribution system that was outdated, in poor shape, and undersized for the load it was already serving. In addition, our West Texas service territory has experienced phenomenal load growth of ~15% per year over the past five years due to increased oil and gas exploration and production activity throughout the region, and despite lower current oil prices, this region continues to show significant oil and gas development activity.

As an example, the former Cap Rock Energy system in West Texas was originally designed for a capacity of only 150 MW. Over the past five years, the load growth in that service territory has grown from 190 MW to 327 MW.

12) What improvements has Sharyland made to the transmission and distribution systems in its SBC divisions?

Transmission improvements include: replacing deteriorating wooden transmission poles with steel and concrete structures, reconductoring existing lines to increase capacity, adding new substations and new feeders to existing substations, and constructing new transmission lines to improve reliability and connect to new loads.

Distribution improvements include: inspecting and replacing older wooden poles, adding sectionalizing equipment such as line reclosers, switches, and fuses to help contain and limit the effect of outages, and upgrading the relay and control system from mechanical to computer based.

13) Have customers in Sharyland's SBC divisions benefited from these investments?

Absolutely. Customers are seeing the benefits of a more robust and reliable transmission and distribution system that can better withstand the severe weather events that are common throughout Texas and that has helped address the frequency and duration of outages. These improvements will also help the system to better accommodate future load growth.

Over the long term, these capital investments will provide greater system efficiencies that will help to lower operating costs, which translate into lower rates for customers.

14) Are there other investments that Sharyland is seeking to make that will improve service and lower costs to customers?

Yes. Sharyland has also proposed an Advanced Meter System (AMS) deployment plan that is currently pending before the PUCT. AMS will offer several advancements in Sharyland's operational abilities, which will ultimately benefit our customers through improved customer service, faster service connections, quicker detection and responses to outages, and reduction in service fees.

15) Why are Sharyland's delivery rates higher than those charged by neighboring utilities that serve similar customers and are experiencing similar load growth in the region?

Sharyland remains a small, rural utility with a customer base of ~54,000 meters spread out over a wide area throughout Texas. Ultimately, our rates are a function of our costs to provide service, how we allocate those costs among the various customer classes, and the overall density of our customer base upon which to spread those costs. We only average approximately 5 customers per mile, whereas most other utilities have much greater customer density to spread out their costs due to the fact they also serve customers in large urban areas.

In September 2015, the PUCT staff published a report that analyzed the causes of Sharyland's rates, which confirmed they were due to the rural nature of Sharyland's service territories and our low customer density. A copy of this report is available on our website at www.sharyland.com/rates.

QUESTIONS ABOUT RATE CASES IN GENERAL

16) What is a rate case?

A rate case is an official proceeding where the PUCT reviews and sets the delivery rates for regulated investor-owned utilities (IOUs) like Sharyland. In Texas' competitive electric market, there are essentially two different types of charges that make up a customer's electricity bill:

- Energy charges are what you pay to your Retail Electric Provider (REP) to cover the price of power for the amount of electricity you consumed. Energy charges are unregulated and are set by your REP in the competitive market.
- Delivery charges (or "wires" charges) are what you pay to cover the cost of delivering that power to your home or business. These delivery charges are calculated using rates that are regulated and set by the PUCT. You pay these charges to the REP as part of your bill, and it is the REP's responsibility to pay Sharyland for the cost of delivering electricity to your home or business. These are the charges involved in the rate case.

Rate cases follow a very deliberate and fair process that is open and transparent and where all parties have an opportunity to participate. In a typical rate case, regulated delivery rates are set to cover the costs of service to deliver electricity to specific customer classes.

17) What types of customer rate classes are there?

The residential rate class covers the costs to serve retail customers that use electricity at their place of residence for personal or family use.

In addition, there are three non-residential rate classes that cover all other types of customers or facilities that use electricity for other purposes, including: small and large businesses, churches and other community facilities, manufacturing, agriculture, irrigation, and oil and gas exploration and production. The three non-residential rate classes are:

- Secondary Less Than or Equal to 10 kilowatts (kW) – Known as "Small Secondary", this class typically covers smaller facilities that are not residences, such as water wells, barns, and small businesses.
- Secondary Greater Than 10 kW – Known as "Large Secondary", this class usually covers larger facilities that facilitate a business activity, including agricultural and irrigation activities.
- Primary – This class primarily covers instances where a very large customer, such as an oil and gas company in a particular oil field, will take service at primary-level voltage and then assume responsibility for maintaining service to any additional points located behind the meter.

In addition, there is also Retail Transmission Class for very large customers, such as a refinery or a manufacturing facility, that choose to take service at transmission level, as well as a Lighting Class for streetlights.

18) What types of regulated rates and charges are there?

Typically, regulated delivery charges are composed of both fixed monthly charges and usage rates, which are rates that can be multiplied times the amount of electricity you actually use (measured in kilowatt hours, or kWh) or multiplied times your demand for energy at a given time (measured in kilowatts, or kW). Both the fixed charges and the usage rates are different for each customer class.

- Monthly Customer Charge – This is a fixed monthly charge that every customer in a particular class pays as part of their individual bill.
- Monthly Metering Charge – This is a fixed monthly charge that every customer pays for the installation and maintenance of their meter.
- Distribution Charge – This is calculated for residential and small secondary customers using a usage rate per kWh and for large secondary, primary, and transmission customers using a demand rate per kW. This covers the cost of constructing and maintaining the lower voltage distribution system that feeds local neighborhoods and communities.
- Transmission Charge – This is also calculated for residential and small secondary customers using a rate per kWh and for large secondary, primary, and transmission customers using a demand rate per kW. This covers the cost of constructing and maintaining the higher voltage transmission system that serves regional needs and larger loads.
- Various riders – Utilities charge specific riders to help recover the costs of discrete and finite programs or expenses. These could include costs for energy efficiency programs or expenses incurred for a specific project, like a rate case. Some riders expire once the full cost of the program or project has been recovered.